Autumn Budget 2021

KPMG in the Crown Dependencies

Wednesday 3 November 2021 | 9.00 a.m.

Webinar presenters

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Today's agenda

Introductions	Robert Rotherham
UK Budget 2021	Robert Rotherham/Justine Howard
OECD Pillar 1 and 2	David Parsons
Economic Substance	David Parsons
FATCA/CRS Update	Clare Kelly
Q&A	

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UK Budget 2021

Robert Rotherham | Partner and Justine Howard | Associate Director

UK Budget 2021

Rates of corporation tax across the G7

01 Abolition of Cross-border Group Relief

02 R&D Tax Relief Reform

03 Residential Property Developer Tax

UK Budget 2021

Annual Indexation Allowance

Qualifying Asset Holding Company (“QAHC”) Regime

Corporate Redomiciliation

Individuals

What was not in the Budget?

- Reform of capital taxes
- Capital Gains Tax
- Inheritance Tax
- Wealth Tax

Further announcements on Tax Day 2? Response from the Government on OTS 2nd IHT review

March 2021 announcements

Frozen until 2026

01 Income Tax Personal Allowance

02 Basic Rate Band (20%)

03 Higher Rate Band (40%)

04 Capital Gains Tax Annual Exemption

05 Inheritance Tax Nil Rate Band

06 Pensions Life Time Allowance

Other key measures

01 Health & Social Care Levy

02 1.25% Increase to Dividend Tax Rate

03 Basis Period Reform

04 Reduction in Universal Credit Taper Rate

05 CGT Reporting for Disposal of Residential Properties Extended to 60 Days

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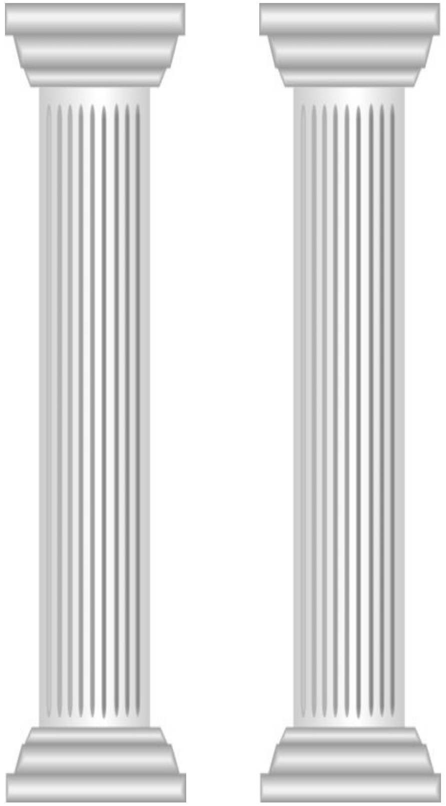
OECD Pillar 1 and 2

David Parsons | Executive Consultant

OECD/ G20: Pillar 1 and 2

Pillar 1

- Moves away from the idea that taxation requires a physical presence in a country before that country has a right to tax
- Limited to largest groups (>€20 billion turnover and 10% profitability). Over 100 global groups likely in scope
- Profit allocation is 25% of profits above 10%
- Extractives and regulated financial services are excluded
- Pillar 1 is a minimum standard



Pillar 2

- Subjects thousands of multinational groups (turnover > €750m) to a global minimum tax of 15%
- Income inclusion rule (IIR) operates as a “top-up” tax
- Works in combination with undertaxed payment rule (UTPR) and subject to tax rule (STTR)
- IIR and UTPR are **not** BEPS minimum standard

OECD/G20: Pillar 2

P2 Key Aspects

Mechanism – Series of interlocking rules – IIR, UTPR and STTR

Revenue thresholds – MNE Groups with consolidated group revenue exceeding EUR750 million (IIR can be lower). No STTR revenue threshold.

Exclusions – Government entities, non-profits, pension & investment funds

Rate and Base – Jurisdictionally blended 15% ETR based on financial accounting of UPE

Formulaic substance carve-out – Mark-up on assets 8% and payroll 10% (over 10 year transition down to 5%)

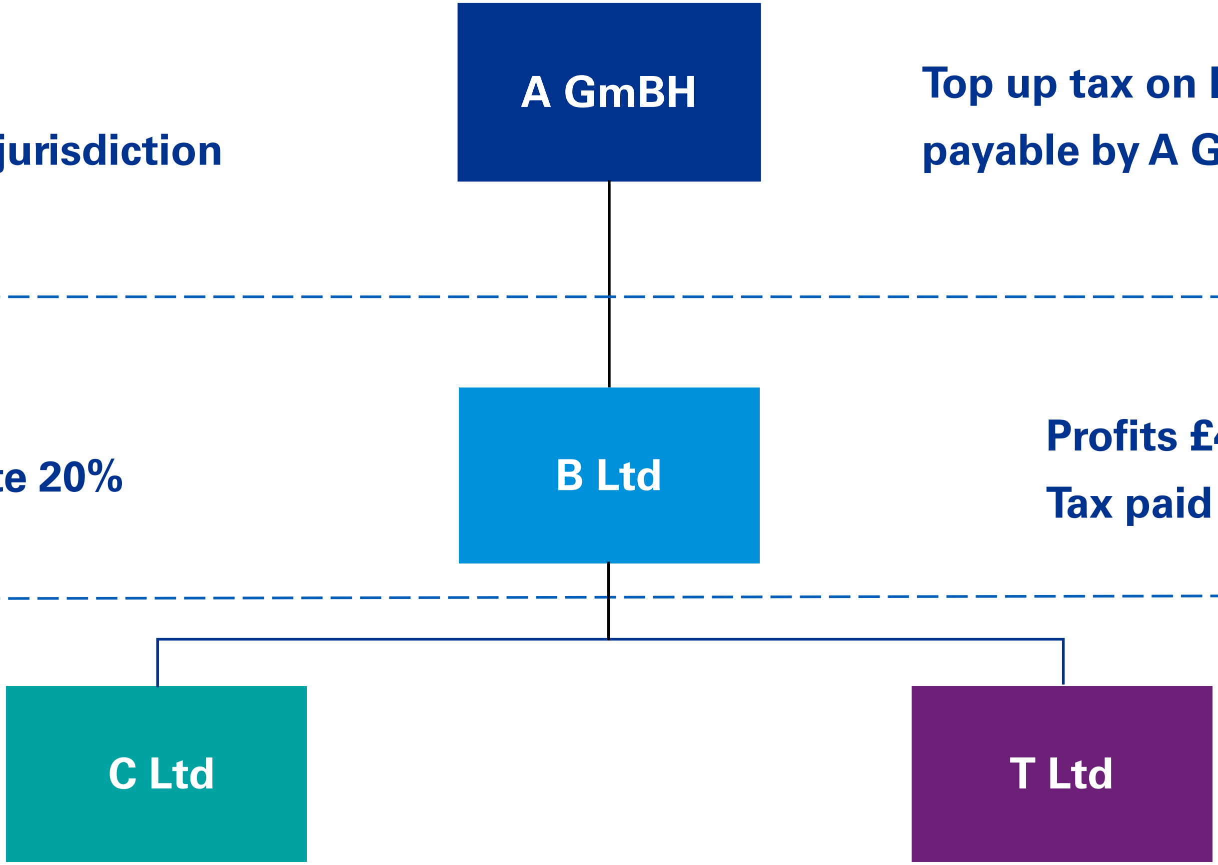
STTR – 9% withholding tax at source on interest, royalties and 'other' payments

Pillar 2: Income Inclusion Rule

Germany

Income inclusion rule jurisdiction

Top up tax on IOM profits potentially payable by A GmBH of £4.5m



Jurisdiction rate 20%

Profits £40m

Tax paid £8m

IOM rate 0%

Profits £20m

Profit £10m

What does this mean for the Isle of Man?

— **No requirement to amend Zero/Ten tax regime…**

— **But IIR means that 15% tax will be paid somewhere for in-scope companies**

— **Impact will be very fact pattern specific, but overall does represent an erosion of 0% attractiveness**

Economic Substance

David Parsons | Executive Consultant

Partnerships: Registration and Substance

Registration

- New registration requirement for partnerships: Form R255
- Includes partnerships formed outside IOM where carrying on business activity in Island
- 15 September 2021 deadline for existing/ 90 days for new partnerships
- Exemption from registration where partnership already filing IOM partnership tax returns

Substance

- Partnerships (and LLCs) now in scope of Substance
- Limited carve-outs for "local activity" partnerships

Economic substance: Crunch time?

- 31 December year ends: approaching end of Substance Year 3…
- But only at start of ITD compliance programme
- Difficult cases: many still to be resolved?
- Pure equity holding companies
- Non-resident applications
- What does this mean for Sanctions?

FATCA / CRS update

Clare Kelly | Senior Manager

Update on FATCA/CRS

ITD's focus to date

- Voluntary approaches to ITD by FIs
- Thematic issues identified from submitted returns (eg reporting data for non-reportable jurisdictions, incorrect IT scripts)
- Review of compliance return
- Follow up on data requests from other tax jurisdictions

Penalties (per new legislation approved 16 June 2021)

- Penalties **will** be levied at a rate of £300 **per FI** for late filing plus £60 per day until return is filed. If report is 6 months late then the FI can be prosecuted.
- Where inaccurate reporting penalty is £300 per reportable account – it can get expensive!
- Penalty of up to £10,000 where FI found to be significantly non-compliant
- Penalties can be reduced through: voluntary disclosure, co-operation, timely actions, extent of the error (ie proportionality)

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Update on FATCA/CRS (continued)

Recommendations

- Check classifications (especially where you made "protective registrations")
- Check foundations on which your reporting is based
- Sense check your reporting back to source documents – it is better to disclosure errors yourself!
- Check what TINs you are outstanding and follow up with account holder
- Check record keeping/ documentation so as ready for Compliance Reviews
- Consider staff training on change of circumstance procedures

Questions

Thank you for joining us

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