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United Kingdom's "Google Tax" – Government Unveils Draft Rules

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The UK Government published this week details of a new 25% "diverted profits" tax, which aims to counter cross-border planning techniques adopted by multinational groups. The proposals are a response to the so-called "double Irish" and "Dutch sandwich" structures implemented by some US multinationals, although their scope is much broader. The tax is expected to be introduced from April 1, 2015.

The rules will generally apply where groups have gained a tax advantage by generating substantial sales income in the UK while structuring to avoid creating a taxable footprint there – for example by formally booking the final customer contracts in a non-UK group company. The rules will also target companies that aim to reduce their effective UK tax rate through transactions with tax haven or conduit group companies, typically involving intra-group licensing and royalty arrangements. The legislation goes far beyond existing transfer pricing rules to allow the UK's tax authority effectively to re-write these transactions to tax the diverted UK profits.

For a summary of the draft rules and an outline of some of the issues raised by the proposals, please see further below.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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