

Answer-to-Question-_1_

Briefing

Date: 10 June 2026

FAO: The Board of Directors, Streamflow Digital Ltd

This briefing pack has been prepared for the use of the Board of Streamflow Digital Ltd and covers the UK exposure to corporation tax, the Digital Services Tax and other reporting obligations.

Exposure to UK corporation tax

A company which is resident in the UK is subject to UK corporation tax on its worldwide income and gains. A company which is not resident in the UK is only subject to UK corporation tax on the profits of a UK permanent establishment or on a UK property business.

Under the statutory test, any company which is incorporated in the UK is considered UK tax resident. However, there is provision that this rule is overridden if the company is tax resident in any other jurisdiction under the terms of a double tax agreement. As Streamflow is considered Aurelian tax resident under the terms of the UK-Aurelia DTA, it is not considered to be UK resident under UK law. As such, we must consider whether it has any UK permanent establishment ("UK") or a UK property business.

A PE is created by a fixed place of business in the UK. This can be any of the following:

- A place of management;
- A branch;
- An office
- A factory;
- A workshop;
- A resource extraction site;
- A building site or construction (where it lasts more than 12 months).

There is however an exception where the overall activity of the business is wholly auxiliary or preparatory. The commercial property in London

would be a fixed place of business if used by Streamflow but as it is let to an unrelated company, it is auxiliary in nature. As such, it does not create a UK PE.

A UK PE may also be created if there is a dependant agent of a foreign business who is habitually negotiating and/or concluding contracts on the business' behalf in the UK. There is an exemption from this if the agent is independent of the company and acting in the ordinary course of business. As Streamflow has no employees or agents currently in the UK, this is not created.

A foreign company is however subject to UK corporation tax on profits relating to UK land under the non-resident landlord rules. This would cover the profits relating to the let of the London office as these are profits from UK land.

For the profits of the UK property business, Streamflow is subject to UK corporation tax at 25%. The return must be filed 9 months and 1 day after the end of an accounting period. Its annual taxable profits are assumed to be £1.9m (£2.4m rent less expenses of £500k). As this is above £1.5m, Streamflow is liable to pay its corporation tax in instalments under the 'Large' regime. Therefore, 25% of its projected tax liability must be paid by the 14th day of the 7th, 10th, 13th, and 16th months following the start of its accounting period.

Exposure to the UK's Digital Services Tax

The UK's Digital Services Tax ("DST") is a tax on digital services revenues attributable to UK users. This means any revenues arising from activities in relation to a social media service, an internet search engine, or an online marketplace.

The threshold for DST is worldwide digital services revenues for a group exceeding £500m for a 12 month period of which £25m are attributable to UK users. As Streamflow has worldwide revenues of £750m and UK attributable revenues of £200m, it exceeds these thresholds and is subject to DST.

The default method of calculating the DST liability is to take the UK attributable revenues less the de minimis amount of £25m and multiply

the result by the DST rate of 2%. The DST payable by Streamflow under this method would therefore be $(£200m - £25m) \times 2\% = £3.5m$.

However, a company within scope of DST may make an election for an alternative basis of charge. This election considers each type of digital services revenues in turn and calculates the relevant operating margin. The amount chargeable for each category is then $0.8 \times$ relevant operating margin $\times$ relevant revenues. This amount is then subject to the standard calculation detailed above.

If the revenues do not exceed the expenses, the operating margin is nil and it follows that there is no tax payable. It is therefore likely to be beneficial for Streamflow to consider the election given it has generated an operating loss. However, the analysis relies on UK revenues and expenses specifically so it is not guaranteed that the election would lead to a nil DST liability.

A company within scope of DST must register within 3 months of the end of the first period to which it is within scope. Given the scale of the UK revenues, it is likely that Streamflow has already registered.

The DST return must be filed 12 months after the end of an accounting period. The tax must be paid within 9 months and 1 day of the end of the accounting period.

Potential sale or occupation of UK sales office

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Sale of UK property

From April 2019, disposals of UK commercial buildings have been subject to chargeable gains when disposed of by a non-resident. A non-resident company is therefore subject to corporation tax on the chargeable gain arising on the sale of a commercial building. If Streamflow chooses to sell the London property, it will therefore be required to pay corporation tax at 25% on the proceeds of the sale less cost and incidental expenses.

There are rebasing rules applicable for properties acquired prior to April 2019, but these are not relevant considering that the freehold commercial property was acquired by Streamflow on 1 January 2025.

Occupation of UK property

The occupation of the UK property would mean that it is a true fixed place of business in the UK. As sales staff would be carrying on the main trade of the business, the activities would not be auxiliary or preparatory. As such a fixed place of business PE would be created. Streamflow would be subject to UK corporation tax at 25% on the profits attributable to this PE.

The profits of a PE are calculated on the basis of the 'separate entity' principle. This means that the 'parent' in Aurelia is considered separate to the PE and all transactions are carried out on arm's length principles. The UK PE cannot get deductions for royalties or interest paid to a group company or its 'parent', but may shoulder an appropriate proportion of such costs payable to a third party by the 'parent'.

Double taxation relief should be available in Aurelia for any profits subject to UK corporation tax and Aurelian tax. If this is done in a similar manner to UK rules, the profits may be exempted, or credit relief may be given at the lower of UK tax suffered and the corresponding Aurelian tax. Aurelian tax advice should be taken to establish this however.

The return and payment dates are detailed above. If profits attributable are however higher than £20m, the instalment payment dates are the 14th day of the 3rd, 6th, 9th, and 12th months of the accounting period.

Answer-to-Question-2

1)

An individual is considered UK tax resident under the Statutory Residence Test ("SRT") if he meets any of the automatic UK tests or has sufficient ties to the UK in the period. However, he is considered automatically non-UK tax resident if he meets any automatic overseas

tests.

Automatic overseas tests:

- An individual was UK tax resident in any of the preceding three tax years (i.e. he is a 'leaver') and spends fewer than 16 days in the year in the UK.
- An individual was not UK tax resident in any of the preceding three tax years (i.e. he is a 'leaver') and spends fewer than 46 days in the year in the UK.
- An individual spends fewer than 91 days in the UK in the year and works full-time overseas with no significant break from his overseas work.

Karl will spend at least 60 days in the UK for each of 2026/27, 2027/28, 2028/29 so does not meet either of the first two tests (and the second is irrelevant as he is a 'leaver'). His work is part-time so the third condition is not met in any year.

Automatic UK tests:

- An individual spends at least 183 days in the UK in the year.
- There is a consecutive period of at least 91 days (30 of which fall in the tax year) in which an individual spends at least 30 nights and the individual has no overseas home (or spends no more than 30 days in each if he does so).
- There is a period of 365 days (1 of which falls in the year) in which 75% of days when the individual does more than 3 hours' work are days when the individual is in the UK.

Karl spends 190 days in Italy so the first test cannot be met in any year. He presumably has an Italian home for this period or spends more than 30 days in his retained Berlin home, so it is unlikely he meets the second test. The third test is irrelevant on the basis he works part-time (assumed not more than 3 hours' per workday).

As none of the automatic tests are met, we must consider Karl's ties to the UK. As a leaver, the number of days in the below table govern the number of ties he would need to become UK tax resident.

No. of days	UK ties needed		
16 - 45	4		
46 - 90	3		
90 - 120	2		
Over 120	1		

Assuming 60 days in each year in the UK, he would therefore need at least three ties to be considered UK tax resident.

Family

An individual has a family tie if he has a spouse or minor child who is UK tax resident in the year.

Karl's spouse is presumed to be German resident. His child in a UK boarding school would prima facie create a tie, but there is an exception where the individual spends fewer than 61 days in the UK with the child in full-time education in the UK. The exception would apply in this case so Karl has no family tie in any year.

Accommodation

An individual has an accommodation tie if he has a UK home for a continuous period of 91 days in the year and spends at least a night there.

This is met in respect of Karl's London property so he has an accommodation tie.

Work tie

An individual has a work tie if he works more than 3 hours' in the UK for at least 40 days.

It is unclear whether Karl will work more than 3 hours in the UK on his 50 UK workdays on the basis he works part time. It is possible he has a work tie if he does so.

90 day

An individual has a 90 day tie if he has spent more than 90 days in the UK in either of the preceding two tax years. This is assumed to be met for 2026/27 as he was UK resident in 2025/26, but will not be met in following years assuming 60 days in the UK.

Country

If an individual is a 'leaver', he has a country tie if he spends more midnights in the year than in any other country. This is clearly not met due to the time spent in Italy.

Therefore, Karl has 2/3 ties in 2026/27 and 1/2 ties in the following

three tax years, depending on whether he has a work tie.

He will therefore be non-resident for 2027/28, 2028/29, and 2029/30 regardless. He will only be UK tax resident in 2026/27 if he has a work tie.

2)

Income tax and Capital Gains Tax

A UK resident individual is subject to UK income tax and capital gains tax ("CGT") on all of his worldwide income and gains. A non-UK resident is generally only liable to income tax in respect of UK source income, and only to CGT on disposals of UK land. This latter case will apply to Karl once he becomes non-UK tax resident.

Karl will be liable to UK income tax on any employment income received from Al Byte Ltd as this is UK source income. He will also be subject to tax on the dividends paid from Al Byte Ltd.

There is however a cap on the liability of non-residents to UK income tax. This is calculated as the sum of tax withheld at source on savings income, the tax deemed paid on dividend income (amount declared x basic rate at 8.75%), and the normal non-savings income tax calculated without the application of personal allowances. If he were only to receive dividend income from UK sources, he would pay no income tax (as his notional liability would be capped at the basic rate and this would be deemed to be paid).

Any disposal of the London property will be subject to CGT, though as it has been a residence of Karl, there may be scope to claim primary residence relief. He will also be entitled to an annual exempt amount. No other assets should be subject to CGT on disposal (assuming no anti-avoidance rules apply).

As Opus Ltd is resident in the BVI, dividends received would not have a UK source and therefore would prima facie not be taxable to income tax. However, there are anti-avoidance rules which can apply in respect of certain income when an individual is only temporarily non-UK resident. This is intended to prevent abuses relating to becoming non-UK resident purely to avoid UK tax on income for which the individual can control the timing. A temporary non-resident is someone who ceases to be UK tax resident and then returns to become UK tax resident before 5 full tax years had elapsed.

The effect of the rules is that the returning individual is subject to UK income tax on the relevant income in the tax year of return. The dividend from Opus Ltd is subject to these rules as it is a dividend from a close company (controlled by 5 or fewer people).

If he returned and became UK tax resident before 5 tax years had elapsed from his last tax year of UK residence, UK income tax would be due on the dividend received from Opus Ltd.

Inheritance tax

An individual is subject to UK inheritance tax ("IHT") if they are Long-Term UK Resident ("LTUKR") at the time of a chargeable transfer. A person is LTUKR if he was UK resident for at least 10 of the previous 20 tax years. As he became UK resident on 6 April 2014, Karl was UK tax resident for 12 years before departure assuming he ceases to be UK resident in 2026/27. There is a tail applied to this rule; a person resident in the UK for 13 or fewer years is not-LTUKR once he is non-resident for 3 tax years. He is therefore considered to be LTUKR until 2029/30 assuming he does not become UK resident in the intervening period.

Exemption of assets for inheritance tax purposes is determined by the lex situs principle. For non-LTUKRs, only assets located in the UK are subject to UK IHT. The assets relevant to Karl appear to be unlisted shares and property. Unlisted shares are considered to be located in the place in which the register of shares is held. Property is located in the place in which it is situated.

Karl's London property and the shares of A1 Byte Ltd (assuming the register of shares is held in the UK) are UK-situs assets and thus will be subject to UK IHT on these assets regardless of his LTUKR status.

Karl may qualify for business property relief on the shares of A1 Byte Ltd assuming that it is a trading company which would remove the value from his death estate. He will also receive the £325k nil-rate band and potentially the residence nil-rate band of £175k if he leaves the London property to a direct descendant.

If Karl is LTUKR on his death and thus subject to IHT on his entire estate, double tax relief may be available in respect of any estate taxes suffered overseas. This relief would be given at the lower of foreign tax suffered and the corresponding UK IHT.

Conversely, if not LTUKR, Karl receive foreign relief for IHT levied on his UK-situs assets on similar principles, but this would naturally depend on local law.

Answer-to-Question-_3_

AN Tax Adviser
XXXXXXX

Tax Director
XXXXXXX

10 June 2026

Dear Sir/Madam,

I am writing to outline the transfer pricing treatment of Pine Ltd's related party loan and the application of the Corporate Interest Restriction ("CIR") rules to the UK group entities. Both the transfer pricing and CIR rules form part of the UK's implementation of the OECD's action on base erosion and profit shifting. These were designed as anti-avoidance measures to prevent large multinational groups from moving profits into lower-tax jurisdictions and thus reducing their liability to tax globally.

Transfer pricing treatment of related party loan

Under the transfer pricing rules, all transactions between related party entities must be executed on arm's length terms. These are broadly the terms which might be expected to be applied if the transaction was carried out between two unrelated parties. This applies to loans and all relevant factors must be considered (interest rate, debt quantum, covenants, etc.)

An ATCA is an agreement with HMRC on the arm's length amount of interest which might be deducted in a year. Once agreed, it should be followed. In 2025, the arm's length margin was 6% and the arm's length quantum £80m. Therefore, the arm's length interest expense is £4.8m. Therefore, £1.2m of the total interest of £6m must be disallowed in the calculation of taxable profits.

In 2026, the related party interest reduces below the allowable amount, but the facts have changed meaning that the ATCA cannot necessarily be followed. However, as the overall debt interest is lower (£5m including bank debt rather than £7.5m in 2025), we can assume that the allowable related-party interest expense is the same (i.e. £4.8m). As such, no disallowance should arise in 2026.

Application of the Corporate Interest Restriction rules

The CIR rules seek to restrict the amount of interest expense in a year to the amount which can be supported by the group's operations in the UK. An interest allowance for a year is calculated and, if the UK interest expense exceeds this in a year, the excess is restricted. This restriction is carried forward and may be reactivated in future periods if the earnings of the business allow. The CIR rules apply after all other interest deductibility rules are applied (e.g. transfer pricing).

By default, the interest allowance is calculated under the fixed ratio method is the lower of:

- 30% of Aggregate tax-EBITDA (Total taxable profits plus interest, depreciation, amortisation, and qualifying tax reliefs)
- Adjusted net group interest expense (the consolidated finance expense of the worldwide group)

This interest allowance is subject to a £2m de minimis.

However, an election can be made to use the group ratio method. This is generally beneficial in highly leveraged groups with significant third-party debt. The interest allowance under this election is the lower of:

- Group ratio (QNGIE/Group-EBITDA, taken from the consolidated financial statements) of Aggregate tax-EBITDA
- Qualifying net group interest expense (the consolidated third-party finance expense of the worldwide group)

We must consider the position for the Oakridge Group for the years in question under both methods.

	2025	2026
	£m	
Tax-EBITDA	15	20
Tax-interest:		
Interest expense	7.5	5
Interest income	(0.5)	(0.5)
TP disallowance	(1.2)	-
Tax-interest	5.8	4.5
Fixed ratio:		
ANGIE	40	40
30% x tax-EBITDA	4.5	6
Interest allowance	4.5	6
Group ratio:		
QNGIE	35	35
Group EBITDA	200	200
GR	17.5%	17.5%
GR x tax-EBITDA	2.625	3.5
Interest allowance	2.625	3.5
Fixed ratio better in both cases		
Interest allowance	4.5	6
Tax-interest expense	5.8	1.5
Restriction/(Reactivation)	1.3	(1.3)

There is sufficient capacity in 2026 to reactivate the amount restricted in 2025. However, this is limited to the amount restricted. The excess interest allowance of £0.2m is carried forward and may be used against interest expense in future years (this is limited to the next 5 years after which it expires).

In order to allocate a restriction between group companies, reactivate restricted interest, or make any elections, a CIR return must be filed. In order to file a return, a reporting company must be nominated. The deadline for this is 12 months after the end of an accounting period. Given the Group expects to reactivate a restriction in 2026, a reporting company should be nominated.

Once a reporting company is nominated, a CIR must be filed. This is due 12 months from the end of an accounting period.

Yours faithfully,
AN Tax Adviser

Answer-to-Question-_5_

1)

Under UK law, the question of whether an entity is opaque or transparent is determined by principles set out in case law, most notably Memec plc v. IRC. The tests set out in Memec are outlined in the table below, along with the analysis for DFLLC and conclusion.

Test	Analysis for DFLLC	Conclusion
Does the foreign entity have a legal existence separate to that of persons with an interest in it?	Yes, it does	Opaque
Does the entity issue share capital or similar?	Not clear	?
Is the business carried out by the entity or jointly by its members?	Appears to trade in its own name	Opaque
Are the persons with an interest entitled to a share of profits as they arise?	It may retain profits so this is not the case	Opaque
Who is responsible for the debts of the business?	Not clear	?
Do the business assets belong beneficially solely to the entity or to the persons with an interest in it?	Appears to hold assets in its own name	Opaque

DFLLC is therefore likely to be considered opaque by HMRC. This is in line with the Anson case which found that a Delaware LLC was considered opaque.

2)

The anti-hybrid rules are anti-avoidance rules arising out of the OECD action on base erosion and profit shifting. They apply to prevent tax advantages arising as a result of an entity or instrument being treated differently for tax purposes by the relevant jurisdictions. This is referred to as a 'hybrid mismatch'. The relevant types of hybrid mismatches are as follows:

- Double deduction - a transaction leads to a tax deduction in more than one jurisdiction
- Deduction/Non-Inclusion - a transaction leads to a tax deduction in one territory with no corresponding taxable income in another jurisdiction

We consider the £6m interest payment from Northbridge to DFLLC. There is prima facie a deduction in the UK for this expense. The US tax authority views DFLLC as transparent and thus that the profits arise directly to the members of the LLC (Euronian HoldCo in full as the only member). It therefore does not levy tax on DFLLC. However, the Euronian tax authority considers DFLLC as opaque and thus does not see the US profits as arising until they are distributed. This leads to a deduction/non-inclusion mismatch as there is a deduction in the UK with no corresponding taxable income elsewhere.

As this mismatch has arisen from DFLLC as the payee being a hybrid entity (opaque in UK and Euronian, transparent in the US), we must consider whether a UK hybrid counteraction arises under Chapter 7. A counteraction under Chapter 7 arises if all conditions A-E are met.

Condition A - a payment is made - the interest payment meets this condition

Condition B - the payee is a hybrid entity - DFLLC is a hybrid entity

Condition C - the payer is within the charge to corporation tax - as a UK resident company, Northbridge is subject to corporation tax.

Condition D - it is reasonable to suppose there is a deduction/non-inclusion mismatch - there is, see above

Condition E - the payer and payee are in the same control group - as they are both 100% owned by Euronian Holdco, this condition is met.

As all conditions are met, there is a counteraction under Chapter 7. In the calculation of the taxable profits of Northbridge, the interest expense on the loan from DFLLC will be treated as non-deductible.

Answer-to-Question-_7_

1)

As a UK resident company, Orion is subject to UK corporation tax on its worldwide income and gains. This includes the profits of its PE in

Freedonia.

Under Article 7 of the double tax treaty, Freedonia is entitled to tax the profits attributed to its permanent establishment. The UK has a duty under the treaty to take steps to eliminate any double taxation arising as a result of this interaction.

The UK gives double tax relief on profits of overseas permanent establishments as a credit against the UK tax liability. This credit is calculated at the lower of the foreign tax suffered and the corresponding UK tax.

In 2024, there were no profits of the PE in Freedonia. As such, there was no Freedonian tax payable and no corresponding UK tax. No DTR is needed.

In 2025, the Freedonian tax suffered was £400k on profits of £2m. The corresponding UK tax at 25% would be £500k. Therefore, DTR of £400k is given against the UK tax liability, meaning that £100k of additional tax was payable in respect of the profits of the Freedonian.

Foreign tax is only considered to be suffered when it is paid to the tax authority. While it does not appear to be the case here, there would be no DTR if the Freedonian liability accrued but was not paid to the authority.

2)

The foreign PE exemption election under s.18A CTA 2009 is an alternative form of relief from double taxation. If a UK resident company makes an election under this provision, all profits and losses of all of that entity's foreign permanent establishments are treated as exempt for the purpose of UK corporation tax.

This election is irrevocable so all factors must be considered prior to making the election.

The election is beneficial where there are PEs in jurisdictions which apply a lower tax rate than the UK on the profits of the PE. The election has no tax effect when the tax suffered overseas is higher than the UK tax as the UK tax is relieved in full as double tax relief. Taking only the Freedonia PE, the election would be beneficial as the 20% tax rate is lower than the UK's 25% corporation tax rate.

However, the main downside of the election is that the losses of foreign PEs are not relievable against UK profits when the election is made. This means that if there is anticipated to be significant losses arising in the setup stage of future PEs (£1m for the Freedonian PE), this election could be disadvantageous. The profit profile of future PEs would need to be carefully considered.

If the PEs on aggregate have accrued net losses in the preceding 6 years prior to the date the election takes effect, the effect of the election

is deferred until the profits of the PEs in future periods equal this 'opening negative amount'. An additional election can however be made to stream the jurisdictions which have generated the ONA, meaning that the profit exemption can apply immediately for those entities which have not accrued losses prior to the date of the election.

There are also anti-avoidance provisions which may act to disapply the election in respect of PEs in certain jurisdictions. These provisions essentially seek to apply the controlled foreign company rules to PEs to ensure that there is no excessive tax advantage to trading through a PE when a CFC in that same jurisdiction would be subject to a CFC charge. In effect, these rules do not apply where the PE would qualify for one or more statutory CFC exemptions. Taking for example the Freedonia PE, these rules would not apply as the tax paid is more than 75% of the corresponding UK tax (and would thus qualify for the tax exemption). These rules would have to be considered in further detail in respect of the jurisdictions where any future PE is expected to be set up. However, if the rules do apply and the profits are brought into account, double tax relief should be available on a unilateral basis.

The election is likely to be beneficial for Orion if its future PEs are expected to be immediately profitable on setup or if the setup losses are relatively immaterial for Orion and those PEs will become profitable. If this cannot be guaranteed, it may be better not to make the election and to instead consider incorporating PEs once they become profitable.

If Orion is to choose to make the election, it must make the election in writing prior to the start of the first accounting period to which it applies.