HAYNES BOONE

Ueno-Park in Bloomberg Tax: Proposed Changes Show Major Shift in UK's Corporate Tax Regime

By Alexandra Ueno-Park | August 28, 2026

RELATED PRACTICES Corporate - London, Tax

Haynes Boone Partner Alexandra Ueno-Park authored an article for *Bloomberg Tax* examining proposed changes that would replace the UK's elective foreign branch exemption regime with a mandatory exemption beginning in 2027.

Read an excerpt from the article below.

Proposed changes to UK rules will require many multinational groups to reassess the tax treatment of their foreign permanent establishments, including the availability of UK tax relief for foreign branch losses.

Under current rules, UK-resident companies are typically subject to corporation tax on the profits of foreign permanent establishments. However, companies may elect into the foreign branch exemption, or FBE, regime, under which the profits and losses of foreign branches are excluded from UK corporation tax. Once made, the election is irrevocable and applies to all foreign branches of the electing company.

The proposed changes would remove that option.

The UK government has released draft legislation that would replace the elective FBE regime with a mandatory exemption for most UK-resident companies for accounting periods beginning on or after Jan. 1, 2027. For UK-resident companies with foreign permanent establishments carrying on activities in the exploration or exploitation of oil and gas, the mandatory exemption will start from Sept. 1, 2026.

For accounting periods beginning on or after Jan. 1, 2027, qualifying foreign permanent establishment profits and losses would automatically fall outside the UK corporation tax regime. As a result, companies would no longer be able to claim UK relief for losses incurred by foreign branches against UK taxable profits.

The government's objective is to protect the UK corporation tax base by preventing overseas losses from being used to offset UK taxable profits.

According to the policy paper, concerns arise where groups obtain UK tax relief for losses incurred through foreign branches but don't subsequently pay a corresponding amount of UK tax on future foreign profits. This can happen where future foreign branch profits are relieved by available double tax relief mechanisms, or where branch activities are transferred into subsidiaries before becoming profitable.

The government has concluded that the existing elective model can produce outcomes where the UK Exchequer bears part of the cost of overseas investment without receiving a proportionate share of future tax revenue. The issue is seen as particularly significant where foreign branches generate substantial losses or large capital allowances, including in sectors such as oil and gas.

Main Changes
The most obvious consequence of the new regime is that companies will no longer have a choice. The exemption will apply automatically and will exclude qualifying foreign permanent establishment profits and losses from UK corporation tax computations. Relief for foreign branch losses against UK profits will cease.

The draft legislation also introduces some important technical changes:

- *The existing "total opening negative amount" regime, which effectively claws back pre-election losses when companies enter the exemption regime, will be repealed. In its place, new transitional provisions will restrict the future use of losses and other tax attributes attributable to foreign permanent establishments.*
- *If an applicable double tax treaty exists, the definition of a permanent establishment for exemption purposes will follow the relevant treaty definition, or otherwise will be based on the Organization for Economic Cooperation and Development Model Tax Convention definition.*

The draft legislation is also accompanied by targeted anti-avoidance measures. These include rules designed to counter arrangements intended to accelerate the use of foreign branch losses before the new regime takes effect, as well as provisions to prevent taxpayers from delaying implementation through the manipulation of accounting periods. The principal anti-avoidance provisions apply from July 13.

Read the full article from *Bloomberg Tax* ***here***.