Reform of foreign permanent establishment exemption: CIOT comments

International Tax Large Corporate

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The CIOT have submitted comments on the draft Finance Bill legislation that will implement the proposed reform to the foreign permanent establishment exemption.

In May 2026, the government announced a fundamental shift from an elective to a mandatory exemption regime for foreign PEs, with potentially far-reaching consequences for UK-headed multinational groups. This announcement was followed by the publication of draft Finance Bill legislation that will implement the changes. It is currently proposed that the new regime will take effect from 1 January 2027.

In our response, we say that the lack of prior consultation on this measure has prevented the opportunity to consider different ways of addressing the perceived issue, and that there was not sufficient time for the far-reaching consequences to be identified, considered and evaluated. Our response considers some of the likely unforeseen consequences that seem to fall outside the stated policy intention of the measure. We also note that the proposed commencement date provides businesses with little time to assess the impact of the reform and prepare for the change.

We recognise the issue that can arise where multinational groups obtain UK tax relief for overseas losses without paying UK tax on future profits; however, this is a stable part of the UK tax system. Although the issue is addressed by many jurisdictions, the UK does not necessarily need to address it in the manner proposed by these reforms. Different jurisdictions have different regimes for foreign PEs. Also, while the aim is to address the issue of a perceived imbalance, the proposed changes will apply generally and are not limited to situations where corporation tax is not being paid on the profits of an overseas branch.

The CIOT's consultation can be found at: www.tax.org.uk/ref1744.

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