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## Tax Alert

### The UK Emerges as a Competitive Holding Company Regime

UK and multinational enterprises are starting to consider (re)organising themselves under a UK holding company for their global operations, rather than using other traditional onshore holding company jurisdictions. This new trend is the result of a number of factors, which have moved the UK from an outside choice as an onshore holding company regime to being a favourable jurisdiction.

#### Main Reasons

- The UK is considered a leading place to do business, with an established and reliable legal system.
- The UK Government has been actively promoting the UK as a holding company regime: HM Revenue and Customs (HMRC) and HM Treasury have enacted numerous measures over the last few years to eliminate obstacles and create what is now a viable and competitive holding company tax regime.
- The UK corporation tax rate has been gradually lowered to 21% and will be reduced to 20% in April 2015.
- Lower tax rates apply to patent income (gradually approaching 10%), and Research & Development tax reliefs have been significantly expanded to promote technology investment and innovation (offering enhanced tax deductions of up to 130% and 225% of certain costs to large and small/medium-sized companies, respectively, and tax credits payable by HMRC to the companies).
- The UK has one of the largest double-tax treaty networks in the world, with over 120 treaties.
- The UK capital markets provide ready access to external capital and at more attractive valuations in some cases than available elsewhere, providing companies with growth capital at reasonable cost (particularly for smaller groups having a holding company incorporated in England).
- Admission to the UK securities markets for smaller growth companies, particularly AIM, provides such companies with the benefits of a public market for their securities within a flexible regulatory environment suited to their needs.

## Investor Taxation

- Foreign investors are not subject to UK tax on a disposal of shares in a UK company, so long as the shares are not attributable to a UK permanent establishment of the investor (which is rare).
- The UK withholding tax regime is comparatively favourable:
  - No withholding tax applies to payments of UK dividends to UK or foreign investors.
  - While payment of interest by UK companies is subject to 20% withholding, various exemptions exist (e.g., listed debt; short interest). Also, the EU Interest and Royalties Directive eliminates withholding between most EU Member States. Further, many of the UK's double-taxation agreements exempt interest from UK withholding tax (e.g., US, Luxembourg, Netherlands).
  - Twenty percent withholding is levied on royalty payments, but the EU Interest and Royalties Directive reduces withholding between EU Member States to zero, and many of the UK's double-taxation agreements exempt royalties from UK withholding tax (e.g., US, Luxembourg, Netherlands).

## Company Taxation

- UK companies are, in principle, subject to UK corporation tax (at 21% / 20%, see above) on their worldwide income. Specific exemptions ensure that UK holding companies are not liable to UK tax:
  - Under the “substantial shareholdings exemption”, a UK company forming part of a trading group can dispose of its UK and foreign subsidiaries free of tax, provided certain conditions are met.
  - Dividends received by a UK company from UK or foreign subsidiaries are normally exempt from UK tax.
- Interest deduction is available for UK as well as international financings (subject to certain caps).
- Advance Pricing Agreements are available to agree a group's transfer pricing arrangement with HMRC at the outset.

## Some Practicalities

- The share capital of UK companies can be maintained in £ or € with the minimum authorised share capital for a private limited company being £1 or the foreign currency equivalent, and £50,000 or €57,100 for a public limited company (PLC) whose shares may be offered to the public at large.
- Private companies require at least one director. Public companies are required to have at least 2 directors, of which one must be an individual (the other director(s) may be corporate(s)).
- Directors do not have to be UK resident but must provide a service/correspondence address and a residential address, which may be the same. The residential address is not available on public record.
- Statutory annual accounts and an annual return must be filed with Companies House.

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