

CASE STUDY : “UK COMPANY FORMATION”

UK companies can be established for a wide variety of trading, investment, and international tax planning purposes.

For example, foreign parent companies wishing to trade in the UK will typically incorporate a UK subsidiary company in order to

- isolate trading risks from the foreign parent company;
- provide limited liability for the foreign parent company;
- provide a corporate image that is respected internationally;
- register for UK VAT.

Losses of the UK company during the start-up period can be set-off against future profits.

Profits under £300,000 can be taxed at the small companies rate of 21%.

Dividends from the UK can be repatriated to the foreign parent company free of UK withholding taxes.

UK companies also make excellent international holding companies.

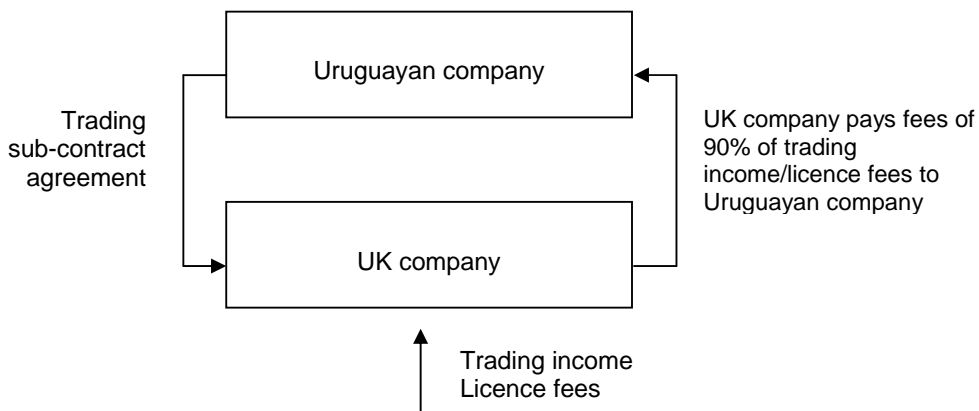
Since 01 April 2002 the capital gains of a UK company arising from the disposal of substantial shareholdings (of UK or offshore companies) can benefit from complete UK corporation tax exemption under the UK substantial shareholder exemption.

Since 01 July 2009 foreign dividends received by a UK holding company are in the main also exempt from UK corporation tax.

There is no withholding tax in the UK on outward bound dividends, and the UK double tax treaty network can mitigate or eliminate foreign withholding taxes (on dividends, interest and royalties). The UK company can also benefit from the EU Parent/Subsidiary Directive, and the Interest and Royalties Directive.

In international tax planning the UK company is widely used as both a holding company (to receive dividends, interest and royalties) and as a cross-border trading vehicle.

Example



Comment

- The UK company declares gross fees or gross income for UK tax purposes, but pays UK corporation tax only on its "its gross margin" (i.e. the margin it is left after its payments to the Uruguayan company).
- The UK company is entitled to UK double tax treaty benefits.
- With appropriate planning, the UK company's payments to Uruguay can avoid UK withholding taxes on e.g. licence fees from e.g. trading rights, patents or trademarks.

This feature sheet is correct to the best of our knowledge and belief at the time of publication. It is, however, written as a general guide only. We recommend that specific advice is sought before applying the information contained in this feature sheet to specific issues or transactions.