

## Formation of Companies in the UK

Companies in the UK have a respectable international image and can be used tax efficiently for cross border trading and as international holding companies.

By **Paul Webb**, 4th January 2020

### Why use a UK Company?

The UK Government has introduced many changes to make the UK tax system more competitive. This has led to the return of UK holding companies, the re-shoring of manufacturing and increased UK based research and development (R&D).

United Kingdom (UK) entities have a respectable international image and can be used tax efficiently for cross border trading and as international holding companies.

Examples of how UK entities can be used are detailed below:

### UK Resident Companies

Since 1 April 2017 the corporation tax rate has been 19%.

There are generous allowances for investment in R&D by small and medium sized entities. The tax relief on allowable R&D is 230%. That means that for every £100 spent on R&D you can claim a tax deduction of £230.

Where a company makes a profit from exploiting potential inventions those profits may be taxed at 10% rather than at the normal corporate tax rate.

UK Controlled Foreign Company Laws have been reformed with the aim of making the UK tax system competitive for multinationals.

There are no withholding taxes on dividends paid from the UK by companies.

### **UK Holding Companies**

The UK has a participation exemption for foreign income dividends. The conditions for this vary according to whether the company is small or large.

As a result of this exemption most foreign dividends will be exempt from UK taxation when received by UK-resident companies. Where the exemption regime does not apply, foreign dividends received by a UK resident company will be subject to UK corporation tax, but relief will be given for foreign taxation including underlying taxation where the UK company controls at least 10% of the overseas company.

No capital gains tax is payable on the disposal of a trading company by a member of a trading group, subject to minimum holding requirements. This relates to disposal of all or part of a substantial shareholding in another trading company, or the disposal of the holding company of a trading group or sub-group.

### **UK Limited Liability Partnerships (UK LLP)**

A UK limited liability partnership is a separate registered legal entity with an address in the United Kingdom. No personal liability falls on a member of an LLP for the contracts or debts of the LLP.

As long as the UK LLP operates in a commercially orientated manner, e.g. carries on a business with a view to generating profit, the members will be treated for tax purposes as if they are partners. A non-resident partner of a UK partnership is not liable to UK tax on non-UK source income.

Therefore if a UK LLP has non-UK partners and is involved in non-UK trading (carried out entirely outside the UK), there will be no UK taxation on its members.

### **Non-Resident Companies**

A UK non-resident company is one that is incorporated within the UK but is deemed to be resident in another country. This occurs when the effective management and control of a company is carried out in another country which has a Double Tax Agreement (DTA) with the UK. The DTA needs to specify that the country of residence of the company is that in which the effective management and control takes place.

Valuable tax planning opportunities are presented where there are treaties with countries offering low corporate tax rates, such as Cyprus, The Netherlands, Portugal and Switzerland. Malta also provides similar opportunities due to the Maltese system of tax refunds.

UK companies which are able to obtain a Certificate of Residence from a competent authority in one of these countries are not liable to UK tax other than that due on UK sourced income.

The UK non-resident company, therefore, offers a respectable and reliable legal personality, together with low taxation, depending on the treaty country used.

### **Formation of Companies in the UK**

General information is detailed below, outlining the formation and regulation of UK companies, as embodied in the Companies Act 1985 and Companies Act 2006, where currently in force.

#### **1. Incorporation**

Incorporation normally takes five working days, although same day incorporation is possible for an additional fee.

#### **2. Shares**

Shares are registered and a shareholders' register is maintained at the registered office.

#### **3. Shareholders**

A minimum of one shareholder is required for a private limited company. There is no maximum number of shareholders.

#### **4. Registered Office**

A registered office is required in the UK and can be provided by Dixcart.

## **5. Meetings**

There is no restriction as to the location of meetings.

## **6. Accounts**

Annual accounts must be prepared and filed with Companies House. A company may qualify for an audit exemption if it fulfils at least two of the following criteria:

- An annual turnover of no more than £2million.
  
- Assets worth no more than £5.1
  
- 50 or fewer employees on average.

An Annual Return must be filed each year.

## **7. Company Name**

Any name may be chosen, provided that it is not the same as, or too similar to, any other company name currently in use. Certain words, however, such as 'Group' and 'International' require special permission.

## **8. Taxation**

The "main rate" of corporation tax is shown in the table below.

### **MAIN RATE**

Financial Year to 31 March 2020 19%

If you would like additional information regarding the formation of companies in the UK and the fees charged by Dixcart, please contact [advice.uk@dixcart.com](mailto:advice.uk@dixcart.com)

Please also see our [Corporate Support Services](#) page for further information.

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