The UK - A Truly Excellent Holding Company Location

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By **Paul Webb**, 31st March 2022

Background – What the UK Offers as a Tax Efficient Jurisdiction

The UK is one of the world's leading financial countries given its financial services industry and its robust corporate law and governance frame works. This information concentrates on its highly competitive corporation tax system for holding companies.

One of the UK Government's key ambitions has been to create the most competitive tax system in the G20. It has developed strategies to support, rather than hinder, growth and to boost investment.

Through the implementation of these strategies the Government is aiming to make the UK the most attractive location for corporate headquarters in Europe.

In order to achieve this the UK Government has created an environment where:

- There are low corporate taxes
- Most dividend income is tax exempt
- Most share disposals are tax exempt

- There is a very good double tax treaty network to minimise withholding taxes on dividends, interest and royalties received by a UK company

- There is no withholding tax on the distribution of dividends

- Withholding tax on interest can be reduced due to the UK’s double tax agreements

- There is no tax on profits arising from the sale of shares in a holding company by non-resident shareholders

- No capital duty is applicable on the issue of share capital

- There is no minimum share capital

- An election is available to exempt overseas branches from UK taxation

- Informal tax clearances are available

- Controlled Foreign Company Legislation only applies to narrowly targeted profits

Tax Advantages in More Detail

- **Corporation Tax Rate**

Since 1 April 2017 the UK corporation tax rate has been 19% but it increased to 25% on 10 April 2023.

The 19% rate will continue to apply to companies with profits of no more than £50,000 with marginal relief for profits up to £250,000.

- **Tax Exemption for Foreign Income Dividends**

Small Companies

Small companies are companies with less than 50 employees that meet one or both of the financial criteria below:

- Turnover less than €10 million
- Balance sheet total of less than €10 million

Small companies receive a full exemption from the taxation of foreign income dividends if these are received from a territory that has a double taxation agreement with the UK which contains a non-discrimination article.

Medium and Large Companies

A full exemption from taxation of foreign dividends will apply if the dividend falls into one of several classes of exempt dividend. The most relevant classes are:

- Dividends paid by a company that is controlled by the UK recipient company
- Dividends paid in respect of ordinary share capital that is non-redeemable
- Most portfolio dividends
- Dividends derived from transactions not designed to reduce UK tax

Where these exemption classifications do not apply, foreign dividends received by a UK company will be subject to UK corporation tax. However, relief will be given for foreign taxation, including underlying taxation, where the UK company controls at least 10% of the voting power of the overseas company.

- **Capital Gains Tax Exemption**

There is no capital gains tax on disposals of a trading company, by a member of a trading group, where the disposal is all or part of a substantial shareholding in a trading company or where the disposal is of the holding company of a trading group or sub-group.

To have a substantial shareholding a company must have owned at least 10% of the ordinary shares in the company and have held these shares for a continuous period of twelve months during the two years before disposal. The company must also have an entitlement to at least 10% of the assets on winding up.

A trading company or trading group is a company or group with activities that do not include ‘to a substantial extent’ activities other than trading activities.

Generally, if the non-trading turnover (assets, expenses and management time) of a company or a group does not exceed 20% of the total, it will be considered to be a trading company or group.

- **Tax Treaty Network**

The UK has the largest network of double tax treaties in the world. In most situations, where a UK company owns more than 10% of the issued share capital of an overseas subsidiary, the rate of withholding tax is reduced to 5%.

- **Interest**

Interest is generally a tax deductible expense for a UK company providing loans for commercial purposes. There are, of course, transfer pricing and thin capitalisation rules.

Whilst there is a 20% withholding tax on interest, this can be reduced or eliminated by the UK’s double tax agreements.

- **No Withholding Tax**

The UK does not impose withholding tax on the distribution of dividends to shareholders or parent companies, regardless of where the shareholder is resident in the world.

- **Sale of Shares in the Holding Company**

The UK does not charge capital gains tax on the sale of assets situated in the UK (other than UK residential property) held by non-residents of the UK.

Since April 2016 UK residents have paid capital gains tax on share disposals at a rate of 10% or 20%, depending on whether they are basic or higher rate taxpayers.

- **Capital Duty**

In the UK there is no capital duty on paid up or issued share capital. Stamp duty at 0.5% is, however, payable on subsequent transfers.

- **No Minimum Paid up Share Capital**

There is no minimum paid up share capital for normal limited companies in the UK.

In the event that a client wishes to use a public company, the minimum issued share capital is £50,000, of which 25% must be paid up. Public companies are generally only used for substantial activities.

- **Overseas Branches**

A company may elect to exempt from UK corporation tax all of the profits of its overseas branches that are involved in active operating business. If this election is made, branch losses may not be offset against UK profits.

- **Controlled Foreign Company Rules**

Controlled Foreign Company Rules (CFC) are intended to apply only where profits have been artificially diverted from the UK.

Subsidiaries in jurisdictions detailed on a wide list of excluded territories are generally exempt from CFC taxation if less than 10% of the income generated in that territory is exempt from or benefits from a notional interest deduction.

Profit, other than interest income, in all remaining companies is only subject to a CFC charge if a majority of the business functions relating to assets used or risks borne are performed in the UK; even then only if taxed at an effective rate less than 75% of the UK rate.

Interest income, if taxed at less than 75% of the UK rate, is subject to a CFC taxation charge, but only if it arises ultimately from capital invested from the UK or if the funds are managed from the UK.

An election can be made to exempt from CFC taxation 75% of the interest received from lending to direct or indirect non-UK subsidiaries of the UK parent.

Introduction of a New UK Tax – Directed Towards Large Multinational Companies

On April 2015 the UK introduced a new Diverted Profits Tax (DPT) which has also been called the “Google Tax.” It is aimed at countering aggressive tax avoidance by multinational companies, which historically has eroded the UK tax base.

Where applicable, DPT is charged at 25% (compared to the corporation tax rate of 20%) on all profits diverted from the UK. It is important to note that this is a new tax and is entirely separate from corporation tax or income tax and, as such, losses cannot be set against the DPT.

Conclusion

The UK continues to be regarded as a leading holding company jurisdiction. Due to the number of tax benefits that are legitimately available, its access to capital markets, its robust corporate law and governance frame works.

The recently introduced Diverted Profits Tax is directed towards a specific and limited group of large multinational organisations.

Which UK Services can Dixcart Provide?

Dixcart can provide a comprehensive range of services relating to the formation and management of UK companies. These include:

- Formation of holding companies
- Registered office facilities
- Tax compliance services
- Accountancy services
- Dealing with all aspects of acquisitions and disposals

Contact

If you would like further information on this subject, please contact advice.uk@dixcart.com, or your usual Dixcart contact.