

Expansion into the UK

- Considerations for US investors

Nick Farmer ACA CTA ATII

London: <http://www.youtube.com/watch?v=45ETZ1xvHS0>

Expansion into the UK



Doing business
in the UK

United Kingdom



Economy

- 6th largest economy in the world
- Member of the European Union
- Currency = £ Sterling
- Economic recovery gathering momentum
- London economy forecast to expand by 15% in next 5 years
- Open economy and easy to do business

Ease of Doing Business

Country	World Bank Ease of Doing Business Rank 2015	FIFA World Ranking December 2014
Singapore	1	161
New Zealand	2	131
Hong Kong	3	163
Denmark	4	32
Korea, Rep	5	66
Norway	6	68
United States	7	23
United Kingdom	8	20 (England)
Finland	9	63
Australia	10	94

Principal forms of UK entity



Legal Structures

- Limited company
- Private limited company
- Public limited company
- Company limited by guarantee
- Partnership including limited liability partnership
- Sole trader
- UK branch of overseas company

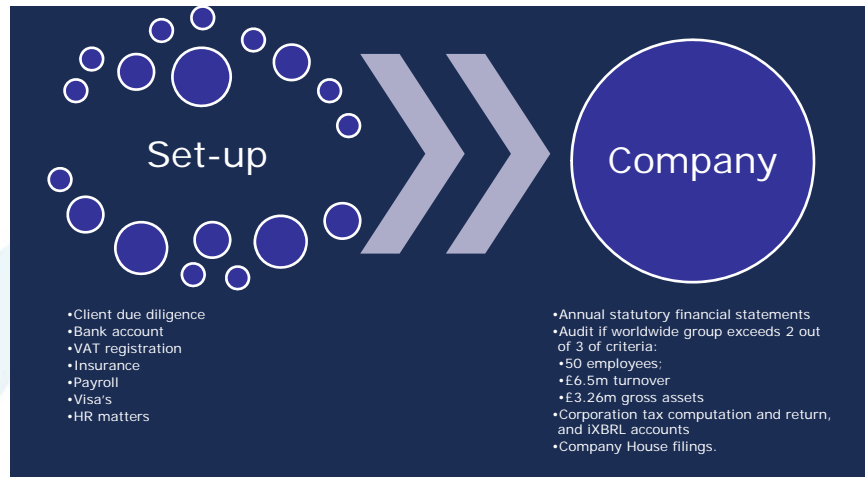
Establishing a UK limited company



Limited companies

- Can be incorporated within 24 hours.
- Shareholders have limited liability.
- No nationality or residency requirements for either shareholders or directors.
- Minimum of one issued share and at least one shareholder and one director.
- Regulated by the Companies Act 2006.

Corporate compliance



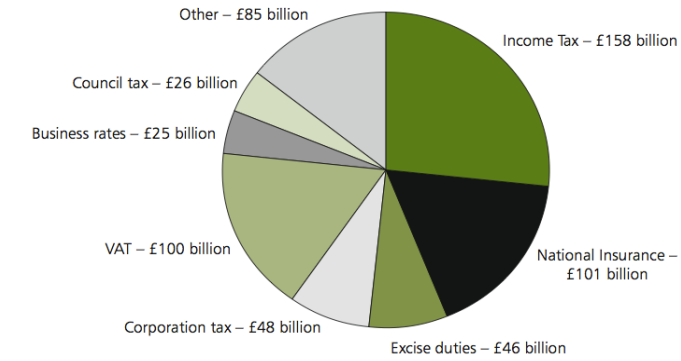
Expansion into the UK



Business
taxes

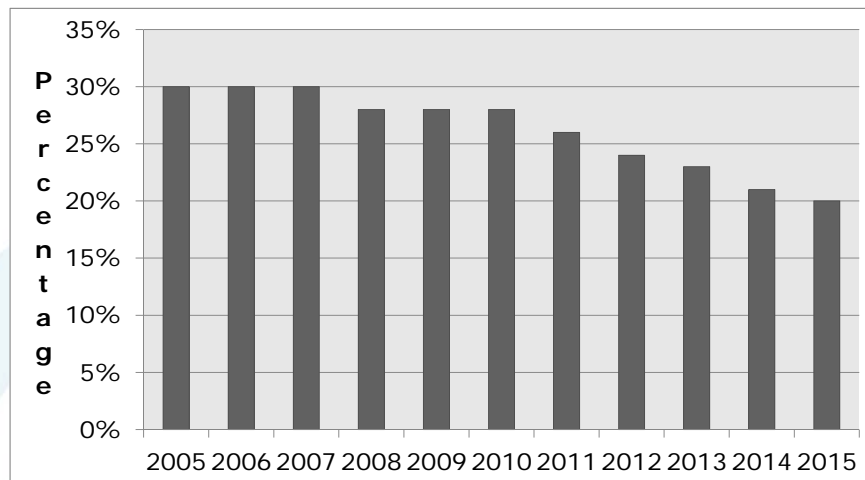
UK government tax receipts

Chart 2: Government receipts 2011-12

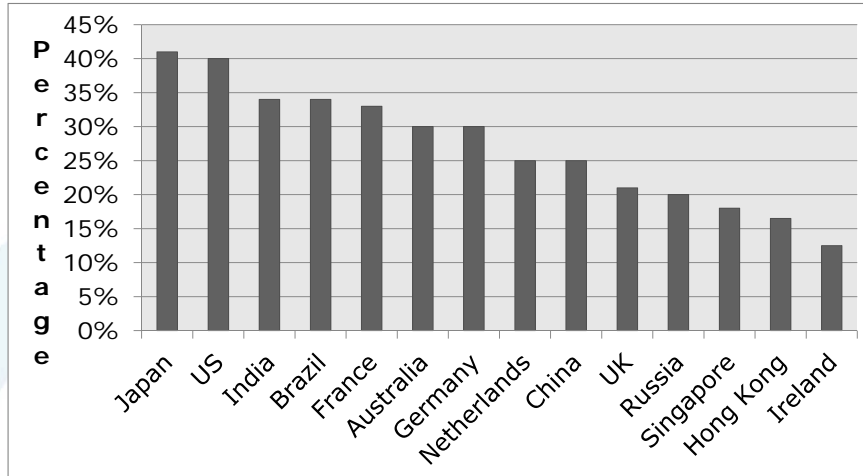


Source: Office for Budget Responsibility, 2011-12 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum due to rounding.

UK corporation tax rates



Indicative corporate tax rates



UK corporate incentives and reliefs



UK corporate incentives and reliefs

R&D regime:

- 130% deduction for large companies
- 225% deduction for SMEs

Patent Box regime:

- Introduced in 2013
- 10% rate of tax on profits attributed to patents

Losses

- Carry forward indefinitely
- Distinction between trading, capital and finance losses.

Capital Allowances regime:

- 100% deduction for £500,000 of P&M (until 12/2015)
- Thereafter: 18% for P&M; 8% for Fixtures

UK corporate tax system



System

- Payment
- Small companies pay 9 months after year end.
- Large companies pay by quarterly instalments.
- Filing with HMRC
- Deadline is 12 months after year-end.
- All returns and accounts must be filed online.
- Groups
- 75% shareholding relationship.
- No tax consolidation
- Surrender of losses between group companies.

Expansion into the UK



Corporate tax structuring

Set-up – branch v subsidiary

UK Branch

- Lower set up and running costs
- Profits only taxable if a Permanent Establishment
- No deduction for interest or royalty payments
- No audit requirement
- Overseas accounts must be filed at Companies House

UK Subsidiary

- Easy to incorporate
- More substantial presence
- Commercial liability ring-fenced
- Facilities movement of staff
- Easier profit determination
- Managed profit repatriation
- Financial Statements required
- Audit may be necessary



Funding – capitalisation alternatives

Loan Capital

- Flexibility
 - Repayment of capital
 - Conversion into shares
- Anti-avoidance:
 - Thin capitalisation
 - Anti-arbitrage rules
 - Debt-cap rules
- APA available
- Withholding tax on interest
 - Treaty clearance needed
- Foreign exchange concerns

Share capital

- Commercial simplicity
- Improves commercial image
- Maximises profits
- No withholding tax on dividends
- £1 minimum capital
- Capital reduction possible

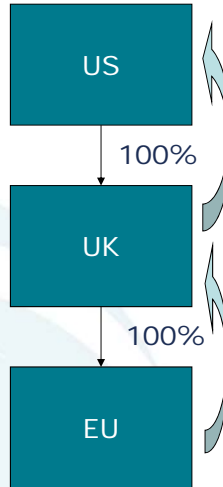


UK holding company regime (tax)

HOLDING COMPANY REGIME	UK
Corporate tax rate	23% (reducing to 20% in 2015).
Double Tax treaties	Excellent extensive network (in excess 120 countries)
Dividend repatriation to UK	Taxable, but exemption available
Anti-avoidance rules	Yes, Controlled Foreign Company regime
Disposal of subsidiaries	Taxable, but exemption available
Withholding tax on dividends paid	None
Pre-transaction rulings	Available on significant commercial transactions

US outbound structure

US:
Deferral until repatriation



UK:
Exemption on inbound dividends

US/UK Treaty:
No WHT on dividends, interest or royalties

Benefits from EU Directives:
- 0% WHT on dividends
- 0% WHT on royalties and interest

Transfer Pricing - exemption for SMEs

	Maximum number of staff	And less than one of the following limits	
		Annual Turnover	Total assets
Small Enterprise	50	EUR 10 million	EUR 10 million
Medium Enterprise	250	EUR 50 million	EUR 43 million

- Limits apply to whole group and not entity by itself
- Transaction must be with a related person in a 'qualifying territory'
- **Deductibility of costs still subject to general rules**
- **Must still consider overseas tax regime**

Expansion into the UK



Value Added Tax and Duties

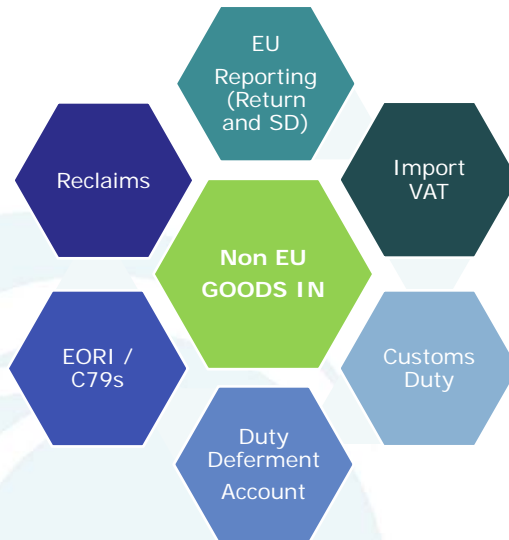
VAT rates in the EU

VAT Rate %	Member State		
27	Hungary		
25	Croatia	Denmark	Sweden
24	Finland	Romania	
23	Greece Ireland	Poland	Portugal
22	Italy	Slovenia	
21	Belgium Czech Republic	Latvia Lithuania	Netherlands Spain
20	Austria Bulgaria	Estonia France	Slovakia United Kingdom
19	Germany		
18	Cyprus	Malta	
15	Luxembourg		

The VAT impact



Purchase of Goods from outside UK



Purchase of Services from outside UK



Expansion into the UK



Income
taxes

Income Tax Rates

2014/15	Income	Rates
Basic – under	£31,865	20%
Higher – over	£31,865	40%
Additional – over	£150,000	45%

- Individual personal allowance of £10,000
- Personal allowance goes down £1 for every £2 above £100,000 so completely withdrawn if income exceeds £120,000.

Residence and Domicile

- Different tax treatment for individuals depending on tax status.
- Concepts of importance:
 - Residence
 - Domicile
- Status affects tax treatment for:
 - Income Tax
 - Capital Gains Tax
 - Inheritance Tax
- Non-Domiciled Individuals have tax advantages:
 - Offshore income and gains can remain outside the charge to UK taxation:
 - Remittance Basis of assessment
 - Lose Personal Allowances
 - Annual fee of £30,000 if UK resident for 7 out of 9 previous tax years;
 - Annual fee of £50,000 if UK resident for 12 out of 14 previous tax years.
 - Offshore assets can remain outside the charge to Inheritance Tax:
 - Planning required as Deemed Domiciled after 17 years.



Statutory Residence Test ("SRT")

Part A: Conclusive non-residence

- In the UK for fewer than 16 days in the tax year if they have been resident in at least one of the previous three tax years
- In the UK for fewer than 46 days in the tax year if they have not been resident in any of the previous three tax years
- Carries out full time work abroad (35 hours per week on average) and:
 - spends 30 days or less working in the UK
 - is present in the UK for 90 days or less in total.

Part B: Conclusive residence

- In the UK for 183 days or more in a tax year
- During any 91 day period, has a home in the UK in which the individual stays for 30 days or more and if they have a home overseas they stay there for less than 30 days during the tax year
- Carries out full time work in the UK (broadly this means working here for 35 hours per week on average).

Part C: Non-conclusive - connection factors and day-counting



SRT - connection factors

DAYS SPENT IN THE UK	MINIMUM NUMBER OF 'CONNECTION FACTORS' TO TRIGGER RESIDENCY	
	ARRIVERS	LEAVERS
Fewer than 10	Non-resident (Part A)	Non-resident (Part A)
10 – 44	Non-resident (Part A)	4
45 – 89	4	3
90 – 119	3	2
120 – 182	2	1
183 or more	Resident (Part B)	Resident (Part B)

Connection Factors:

1. A UK resident family
2. Home in the UK in which stay for at least 1 night
3. Substantive UK employment: works in the UK for more than 40 days
4. 90 days spent in the UK in either of the two previous tax years
5. Leavers only: more days spent in the UK than any other country in that year

Expansion into the UK



Property taxes

Residential Property – non-residents



Property taxes for non-residents

- Stamp Duty Land Tax: on acquisition of property
- Income tax: on rents paid to non-resident landlords
- Withholding tax: 20% on interest payments to non-residents
- Capital Gains Tax: will apply to non-residents from April 2015 on proportion of gain arising after April 2015.
- Inheritance tax: can arise on UK assets owned personally



Stamp Duty and Stamp Duty Land Tax

Land and buildings (on full consideration paid)

Rate	Residential property £	Non-residential £
0%	0 – 125,000	0 – 150,000
1%	125,001 – 250,000	150,001 – 250,000
3%	250,001 – 500,000	250,001 – 500,000
4%	500,001 – 1,000,000	Over 500,000
5%	1,000,001 – 2,000,000	-
7%	Over 2,000,000	-



Capital Gains Tax

	2014/15 £	2013/14 £
Individuals		
Exemption	11,000	10,900
Standard rate	18%	18%
Higher rate*	28%	28%
Trusts		
Exemption	5,500	5,450
Rate	28%	28%

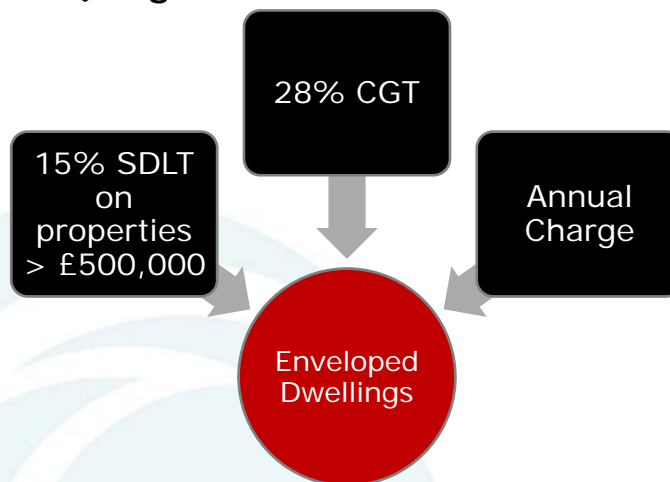
* For higher and additional rate taxpayers

Inheritance Tax

Death Rate %	Lifetime Rate %	Chargeable Transfers 2014/15 and 2013/14 £'000
Nil	Nil	0 – 325*
40	20	Over 325*

* Potentially increased for surviving spouses or civil partners who die on or after 9 October 2007.

Annual Tax on Enveloped Dwellings (“ATED”) regime







Annual charge on residential property owned by company

Property value	2014/15	2015/16	2016/17
£500,000 - £1m	N/A	N/A	£3,500
£1m - £2m	N/A	£,7000	£7,000+
£2m - £5m	£15,400	£15,400+	£15,400+
£5m - £10m	£35,900	£35,900+	£35,900+
£10m - £20m	£71,850	£71,850+	£71,850+
£20m+	£143,750	£143,750+	£143,750+

Various reliefs apply from annual charge. Must claim on ATED return.



Offshore and International tax team

Nick Farmer		Nick specialises in providing international tax advice to companies and their shareholders. He has extensive experience in both UK and international corporate tax issues, and has worked on many cross border tax projects with other members of HLB International. Contact details: T: +44 (0) 1784 497100 E: nfarmer@menzies.co.uk
Martin Peddie		Martin has 20 years experience providing specialist tax planning advice to clients who are either resident but not domiciled in the UK or domiciled but not resident in the UK. He works closely with our private client team to ensure that clients domestic and international wealth management plans are integrated through the use of overseas and offshore structures for personal and corporate investment. Contact details: T: +44 (0) 1372 360130 E: mpeddie@menzies.co.uk
David Truman		David is a tax partner specialising in private client tax. He specialises in dealing with non-UK domiciled individuals, expatriate tax and the international aspects of taxation for employees, business owners and high net worth individuals. He also deals with trust taxation for both onshore and offshore trusts. Contact details: T: +44 (0) 20 7387 5868 E: dtruman@menzies.co.uk
Jayne Simpson		Jayne has worked in VAT for over 15 years starting her career with HMRC and more recently working for a Big 4 accountancy practice. She is a qualified Chartered Tax Advisor and has focused predominantly on international organisations over the past 10 years. Contact Details: T: +44 (0) 1784 497255 E: jsimpson@menzies.co.uk

Closing comments

