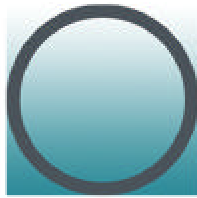


MANIVEST 宏傑

Originated in Asia, Based in Asia, Serving the World 源於亞洲，基於亞洲，服務全球

FACT SHEET

The Use of the UK Holding Company in International Tax Planning

Introduction

The UK is considered by many professional tax planners to be a tax haven for non-UK nationals, and the "best kept secret in Offshore Financial Planning". Before we discuss the various features and advantages of using UK companies in international asset and tax planning, readers and users must be reminded that all UK companies are liable to UK Corporation Tax (CT) on all sources of income and capital gains. That means UK companies are subject to CT on their worldwide income. All UK companies are deemed to be tax resident in UK. However, with proper advice and planning, a UK company can function as tax-efficiently as an IBC from a low-tax jurisdiction.

Potential Advantages of a UK Corporation

The following is a summary of the core attractions of using a UK company in tax planning.

Tax Treaty Network

The UK has the largest network of double tax treaties (over 100) in the world rendering UK companies a very efficient vehicle for minimizing withholding taxes on dividends received.

In some cases, if the UK company owns at least 10% of the share capital of an oversea company, the rate of withholding tax experienced on non-UK dividends can fall to nil or as little as 5% of the gross dividend.

The UK company can also benefit from the EU Parent/Subsidiary Directive, whereby withholding taxes on intra-EU dividends is eliminated altogether.

The following are the rates of withholding tax on dividends, royalties and interest paid to a UK parent company from various jurisdictions. In all cases, use of a UK company avoids the domestic rate.

COUNTRIES	Dividends	Royalties	Interest	Domestic Rate
China	Nil	10.00%	5.00%	33.00%
New Zealand	15.00%	10.00%	10.00%	30.00%
EU Countries	Nil	Nil	Nil	About 25%
Singapore	Nil	10.00%	10.00%	15.00%
United States	5.00%	Nil	Nil	30.00%

Low Cost of Maintenance of a UK Company

Although the costs of maintaining UK companies cannot be compared with the cost of maintaining IBCs, they are amongst the lowest in developed jurisdictions with comparable reputation, international respectability and protection.

Share Capital

There is no minimum paid up share capital requirement and no capital tax on authorized or issued shares.

Audit of Accounts

There is no audit requirement for companies with turnover below GBP1,000,000 AND net assets of less than GBP1,400,000, unless the company is part of a larger qualifying group.

Ease of Establishment

Shelf companies are available. If required, tailor-made companies can be set up within 24 hours.

International Respectability and Protection

UK companies are often used to acquire assets in certain foreign locations to minimize risks of expropriation by foreign governments.

Tax Advantages

Reduced corporate tax rates--Profits of GBP10,000 or less are tax free. The next GBP40,000 are taxed at a rate equivalent to 23.75%. Profits between GBP50,001 and GBP300,000 are taxed at the "small companies rate" of 19%. Profits in excess of GBP300,000 are taxed at a rate equivalent to 32.75%. Profit in excess of GBP1,500,000 are taxed at the standard rate of 30% on the whole profits.

Note that pure investment companies cannot benefit from the small companies rate.

Exemption from capital gains tax on disposal of shareholding in a trading group--Starting from 2002, tax exemption is available for capital gains from the disposal of substantial shareholdings" (shareholdings of 10% or more) in a trading group. There is a qualifying shareholding period of 12 months. The disposal should not result in the UK company ceasing to be a member of a trading group.

The exemption from capital gains tax from the disposal of 'substantial shareholdings' also applies to sole trading companies, provided they own at least 10% of another company.

Exemption from capital gains Tax on disposal of assets situated in the UK by non-residents --The selling of a UK holding company's shares does not attract any tax in the UK.

Tax on dividends and royalty--There is no withholding tax on dividends received from other UK

companies and companies in EU countries if the EC Parent/Subsidiary Directive applies. On distribution by UK companies of dividends to shareholders, there is no withholding tax on such dividends payable to non-resident shareholders. With proper planning, there is no withholding tax on royalty payments made by a UK company to a foreign shareholder.

Losses carried forward and backward--Company losses can be set off against income from the previous year or carried forward for many years against profits of the same trade.

Various relieves available on tax on foreign dividends received--Various credits and deductions are available for UK companies receiving foreign dividends to set off against their liabilities to UK corporation tax, as follows:

Non-UK withholding taxes paid on dividends received by the UK company, and foreign taxes paid on profits from which the dividends are paid can be set off against UK corporation tax liabilities provided the UK company owns not less than 10% of the share capital of the dividend-paying company. Therefore in cases where the UK company owns a 10% stake in an overseas company, foreign taxes incurred on overseas trading profits are fully deductible against corporation tax in the UK.

Foreign tax paid in excess of UK corporation tax, with certain limitations, can be surrendered between group companies (pooling arrangements).

Foreign tax paid in excess of UK corporation tax, can with certain limitations, be carried forward indefinitely or carried back to be used in the three immediately preceding years.

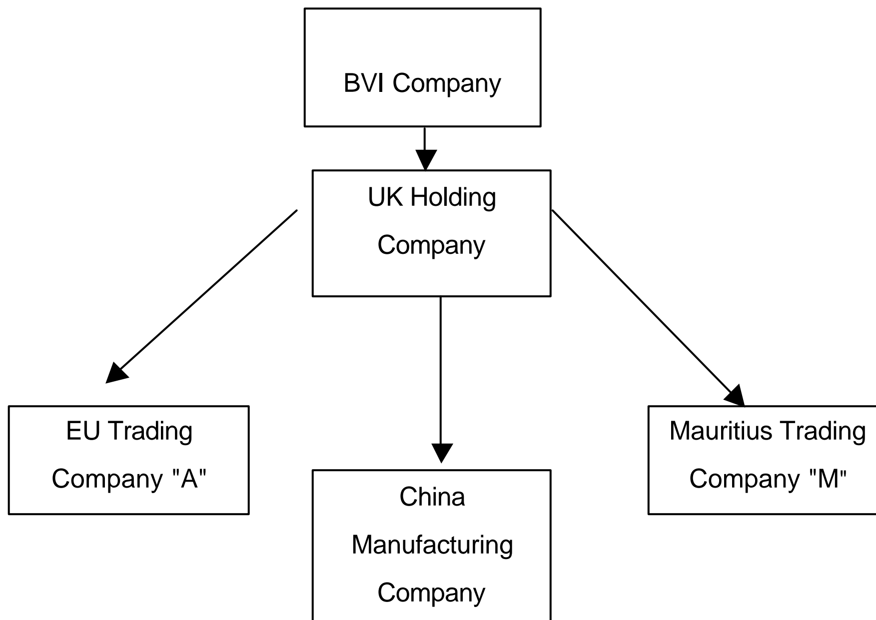
Alternatively, foreign tax can be deducted as an expense in arriving at the foreign income or capital gain liable to UK corporation tax. This will be advantageous if no UK taxes are payable, say, because of the tax losses carried forward from previous years.

Tax sparing

Taxes may sometimes be forgiven by a developing country to foreign investors in order to attract investment into the country. That is, the tax rate applicable to a foreign investor will be less than the tax rate for locals. To encourage UK corporations to invest in developing countries, the UK has entered into tax treaties with “tax sparing” clauses under which taxes forgiven by the developing countries will be treated as actually paid. Amongst the 30 countries, the most important for Asians are China, Singapore, Malaysia, Portugal, Spain, and Thailand. The follow is an example to illustrate the operation of the clause:-

Foreign subsidiary's profit	100
Foreign corporation tax payable, calculated according to local tax rate	35
Less: Full exemption by foreign government	-35
Tax payable	**Nil**
UK Corporation tax computation	
World-wide profits	100
Corporation tax at 30%	30
Less: Foreign tax paid (deemed to be paid)	-35
Tax payable	**NIL**

Example of the Use of a UK Holding Company



In the above example,

- For trading company A situated in the EU, the UK holding company can benefit from the EC Parent Subsidiary Directive and there are no withholding taxes on payment of dividends to UK company.
- For Mauritius trading company M, the effective tax rate is 3% (or 80 % tax credit on 15% income tax)
- Withholding tax on payment of dividends to UK company is 10%, utilizing the Double Tax Treaty between Mauritius and the UK.
- Withholding tax on payment of dividends to UK company by the China Company is Nil. China company pays 15% of tax on its profits. However, the official rate is 33%. When these dividends are received by the UK company, they are chargeable to UK tax. However, relief is given for all underlying tax paid in EU on profits, from which dividends are paid and for the official tax payable (in full rate of 15% and 33%) in Mauritius and China respectively The resulting tax credit will leave little or no UK tax liability.
- Dividends from the UK company can be paid to the BVI company without any withholding tax.
- There is no capital gains tax on the disposal by the UK company of shareholdings in any of its subsidiaries, provided that the UK company owns the subsidiaries for over one year and the disposal does not result in the UK company ceasing to be part of a trading group. Even if, on a disposal, the UK company ceases to be a member of a trading group, with appropriate tax planning the gains can remain tax exempt in the UK.

- Dividends received by the BVI company do not attract any income tax in the BVI.

How Manivest Can Help You

The directors and management of Manivest are professionals in the offshore industry having served the Asia markets for nearly 20 years. Through our offices in Hong Kong, Shanghai and Macau as well as our associates in other Asia cities, we offer a full range of comprehensive value-added services to professional advisors and their clients.

Manivest offers the following services:

- Incorporation of UK companies and companies in other onshore and offshore jurisdictions
- Full corporate management services
- Registered office, business office, mail redirection and business centre (available in selected locations only)
- Accounting services and VAT registration
- Re-invoicing services
- Asset protection and preservation advisory services
- Business establishment services
- Market exploration services

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