FACT SHEET

The Use of the United Kingdom Company in Trading Venture

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 corporations 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.

The use of UK Companies

In general, UK companies are frequently used in the following situations:-

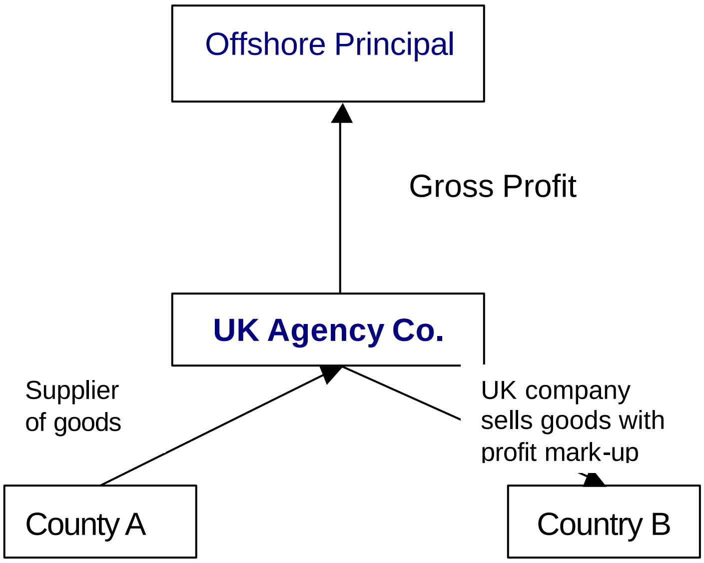
- As a Holding Company in group structures. Please refer to our Fact Sheet - UK Holding Company
- As a Trading Vehicle (see below)
- As a Royalty company

In this fact sheet, we shall explain the use of the UK company in trading operations. Please also refer to other fact sheets for the advantages of UK companies. UK companies as a trading vehicle can be used in the following structures :-

- As an agency company acting for an undisclosed offshore company (principal)
- As a trader in its own right.

As Agency Company Acting for an Undisclosed Principal

UK companies are often used as nominees or agents for undisclosed offshore companies, in particular to receive consultancy fees or sales revenue from a transaction in goods.



- UK company is a trustee of the profit mark-up and accounts for it to the offshore principal.
- UK company' s accounts only show its commission, which is normally between 1% and 3% of gross profits.

Reasons for Using Agency Companies

In recent years, Inland Revenues of many industrialized nations have tended to view transactions with corporations in certain jurisdictions with great suspicion. Businessmen using BVI companies or similar companies in zero or low tax jurisdictions may have great difficulties in persuading customers in these countries to accept invoices issued by their companies; or they may have to spend extra time and effort in dealing with questions from their local tax authorities.

The Structure of Agency Arrangement

In this structure, trading activities can be entered into by the UK company on instruction or on behalf of the principal, with an agency agreement signed between the principal and the UK company. Under the agency agreement, the UK company will allow the principal to use its name, address and VAT number (if any) on contracts, invoices, letters and correspondence with the customer. In effect, the offshore company (principal) conducts the business, but in the name of the UK company. Invoices will be issued to customers by the UK company upon receipt of formal instructions from the principal.

Receipts from trading activities will be deposited into a bank account of the UK company and subsequently remitted to the principal. Under UK law, the UK company must receive a proper fee for its agency services. In practice, this fee is normally circa 3% of gross fees or gross margin depending on the nature of the activities. If desired, the bank account of the UK company could be established within the UK itself with authority and confirmation on the operation of the account at all times coming from the directors outside of the UK.

Taxation

Provided that certain safeguards are observed, no UK taxation will be payable on the resulting trading profits, other than the commission charged by the nominee for its services, as long as the trading activities are not transacted in the UK. Since non-UK companies are subject to UK tax only on their UK source income, as long as the trading or other income does not have a UK source, the principal will not be subject to UK tax, notwithstanding the fact that it has chosen to trade through a UK tax resident company.

It is essential that the agency agreement is not executed within the UK. In order to ensure no trading activity within the UK, the directors of the UK company should be resident outside of the UK and all transactions carried out outside the UK.

VAT Registration

If the taxable turnover of a UK Company is more than GBP55,000 per annum, it must be registered for VAT. However in the case of a nominee it must show that either its sales are within the scope of UK VAT, it is selling goods by triangulation within the EU or it has a genuine business need. Taxable turnover includes both the fees and invoices raised in the name of the UK company on behalf of its principal. In general, the rules for VAT charges are:-

- If the company supplies to VAT registered customers outside the UK, VAT is **not** chargeable.
- If the company supplies to "Not-VAT registered" customers within the EU, VAT is chargeable.
- If the company supplies to non-EU customers, VAT is **not** chargeable.

Advantages

The main advantages of this structure are that the principal, which is an overseas offshore company, can set up a UK company for trading purposes without publicly disclosing the identity of the principal. Customers will receive invoices from the UK company only, avoiding the difficulties if transactions are undertaken directly with an offshore company. In addition, there are various customs and tax benefits that can be claimed if a UK company transacts with customers in EU countries.

The Use of UK Company as a trading vehicle

Although UK companies are often used as nominees or agents for undisclosed offshore companies, they can of course trade in their own right.

Taxation

For a trading company whose net profits are less than GBP10,000, no corporation tax is payable. For taxable profits below GBP50,000, a marginal rate of 23.75% applies. For profits between GBP50,000 and less than GBP300,000, the UK corporate tax rate is 19%, with generous tax credit deductions available for foreign taxes incurred. Any post-tax profits can be retained within the company or distributed to non-resident shareholders free of any UK tax.

Advantages

The main advantage of this structure is that UK companies have a very positive and "up-market" image. UK companies can utilize various customs and tax benefits, including EU directives and double tax treaties and can facilitate worldwide asset and tax planning. Assets owned by a UK company are less vulnerable to expropriation or confiscation by foreign governments than offshore companies.

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/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

Manivest – Originated in Asia, Based in Asia, Serving the World.