UK Holding Companies for Multinational Groups

BUSINESS TAX GUIDE

October 2015

OVERVIEW

The UK is considered to have one of the most competitive tax regimes for holding companies of multinational groups. The UK's corporation tax rate has fallen steadily in recent years; from 1 April 2015 it stands at 20%, set to fall to 19% in April 2017 and again to 18% in April 2020.

The UK has moved toward a territorial system of taxation for companies. Broadly, if a UK company has subsidiaries in other countries, subject to certain exceptions, the taxable profits of those companies earned in other countries will not be subject to UK taxation. There are further specific tax exemptions available for the holding company making the UK regime favourable.

In addition to taxation factors, the UK is generally considered to have many non tax advantages. For example: the rule of law, London as a leading global financial centre, the English language, an attractive location for stock exchange listing and for raising finance, etc.

UK Corporation Tax

Subject to the key tax exemptions below, corporation tax is payable on a company's worldwide taxable profits. The UK's corporation tax rate has fallen steadily in recent years and from 1 April 2015 it stands at 20% set to fall to 19% in April 2017 and again to 18% in April 2020. This rate is competitive when compared with those of other large developed economies.

Key exemptions from UK Corporation Tax

The UK affords an exemption to certain profits:

- Gains on the disposal of shares in a trading subsidiary are generally tax free under the 'Substantial Shareholding Exemption'.
- Dividends and other distributions received from both UK and non-UK subsidiaries are generally exempt from tax unless they fall within certain anti avodance rules.
- Profits of overseas branches of UK tax resident companies can be excluded from UK taxation.

Key anti-avoidance

Controlled Foreign Companies rules are anti-avoidance provisions that can bring profits of overseas subsidiaries within the UK tax net but only if they have been artificially diverted from the UK. See our 'Controlled Foreign Companies' Business Tax Guide for more information.

Diverted profits tax is a new tax to counter multinational enterprises using aggressive tax planning techniques to divert profits from the UK and reduce their UK corporation tax liability. The regime imposes tax at a rate of 25% to the profits that are, in effect diverted from the UK tax net under such schemes.

Transfer pricing legislation in the UK sets out a mechanism for taxing transactions between connected parties, to prevent them from setting prices to minimise the group's UK tax liabilities. The legislation gives the UK tax authorities the power to tax intragroup transactions by reference to the profit that would have arisen had the transactions been carried out on an 'arm's length basis'. See our 'Transfer Pricing' Business Tax Guide for more information.

Relief for funding costs, in particular, interest payments are usually tax deductible this contrasts with dividends, which are not deductible. This position encourages funding through loans rather than investment and accordingly anti-avoidance rules apply to limit the amount of deductions that multinational groups may claim in the UK in respect of interest payments.

HMRC consider the rate of interest on any intercompany loan, as well as whether the company is perceived to be 'thinly capitalised'. Further, 'worldwide debt cap' rules can also restrict UK interest relief to the external funding cost of the worldwide group.

Tax incentives for companies within the charge to corporation tax: Innovation tax reliefs

The UK has a very attractive research and development tax regime which can result in tax relief of up to 230% for 'qualifying' spend. Loss making companies can receive a repayable tax credit amounting to around 33p in every £1 of qualifying spend. The amount of relief is dependent on the size of the company. See our 'Research & Development Tax Credits' Business Tax Guide for more information.

The recently introduced Patent Box regime can give an effective rate of corporation tax of 10% on worldwide profits derived from licence income or sales of products which incorporate a patented component or technology. See our 'The Patent Box' Business Tax Guide for more information.

If you are interested in further information in this regard, please contact the Rawlinson & Hunter partner who normally acts for you. Where you are not one of our regular clients, please contact Craig Davies or Andrew Shilling, who would be delighted to discuss this with you in more detail.

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