

# **The Advantages of the UK as a Location for a Holding Company**

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## The Advantages of the UK as a Location for a Holding Company

Despite the uncertainty surrounding Brexit, the UK continues to be an attractive location to site an international holding company since not only does it offer a relatively stable legal, political and economic system it also has an attractive tax regime in its own right and extensive tax treaty network with the rest of the world.

The location of a holding company is an important consideration in any international structure where there is a desire to minimise the tax charged on the income flow.

The UK:

- has a low rate of corporation tax, currently 19% and set to fall to 17% in 2020
- exempts dividends received from subsidiaries in most countries from corporation tax
- does not charge capital gains tax on the disposal of trading subsidiaries
- does not levy withholding tax on distributions from the holding company to its parent company or individual shareholders
- has no capital gains tax on profits arising from the sale of shares in the holding company by non-resident shareholders
- offers extensive reliefs for early stage businesses
- offers extensive relief for expenditure on qualifying research and development
- has the option of a remittance basis of taxation for non-UK domiciled individuals who come to the UK, for example as holding company directors

## Some of the highlights in more detail

### Tax Treaty Network

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

Whilst UK remains part of the EU, it can also benefit from the EU Parent/Subsidiary Directive, thereby reducing withholding tax to zero on dividends from many EU countries. Although there is no indication yet of proposed regulations post Brexit, the UK will certainly need to offer a competitive landscape to continue to attract investment.

### Tax Exemption for Foreign Income Dividends

| <b>Small Companies</b>  | <b>Medium and Large Companies</b>  |
|---|--|
| <p>Small companies are defined as companies with less than 50 employees that meet one or both of the financial criteria below:</p> <ul style="list-style-type: none"> <li>• turnover less than €10 million</li> <li>• balance sheet total of less than €10 million</li> </ul> <p>Small companies receive a full exemption from the taxation of foreign income dividends if these are received from a territory which has a double taxation agreement with the UK that contains a non-discrimination article. The UK has treaties with more than 130 countries including the recently enacted agreement with the United Arab Emirates.</p> | <p>A full exemption from taxation of foreign dividends applies if the dividend falls into one of several classes of exempt dividend. The most relevant classes are:</p> <ul style="list-style-type: none"> <li>• dividends paid by a company that is controlled by the UK recipient company</li> <li>• dividends paid in respect of ordinary shares</li> <li>• capital that is non redeemable</li> <li>• most portfolio dividends</li> <li>• dividends derived from transactions not designed to reduce tax</li> </ul> <p>Where these exemption classes 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.</p> |

## No Withholding Taxes

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

## Capital Gains Tax

There is no capital gains tax on disposals of subsidiaries by a holding company of a trading group subject to meeting the qualifying conditions for the “Substantial Shareholdings Exemption” (SSE).

To have a substantial shareholding, a company must have owned at least 10% of the ordinary shares in the company and have held these for a continuous period of 12 months during the two years before disposal.

To qualify for this exemption the investing company must still be the holding company of a trading group or a trading company itself immediately after the disposal. If it is no longer a trading company or member of a trading group, dissolution of the holding company should proceed immediately in order to qualify for the exemption.

## Sale of Shares in the Holding Company

The UK does not charge capital gains tax on the sale of shares in the holding company situated in the UK by non-residents. Therefore if the holding company is itself disposed of by non-UK owners (personal or corporate ownership) there is no exposure to UK capital gains tax.

There is anti-avoidance if the holding company is mainly a property investment company, which would bring gains into the UK tax charge.

## UK Controlled Foreign Company (CFC) Legislation

Anti-avoidance rules, called the controlled foreign company (CFC) rules, prevent UK resident companies rolling up profits in jurisdictions where the tax rates are very low to avoid paying UK tax on the rolled up income.

UK CFC laws exist to:

- target and impose a CFC tax charge on the artificial diversion of UK profits
- exempt foreign profits, where there is no risk to the UK tax base
- ensure profits from genuine economic activity from outside of the UK are not taxed in the UK – a vital component of any holding company regime

The UK CFC laws do not therefore affect the majority of UK companies which are the parent of international groups whose intention is not to divert passive profits away from the UK.

## Conclusion

Locating a holding company in the UK is highly desirable due to:

- the UK's extensive double tax treaty network
- exemption of dividends from taxation in the UK
- capital gains tax exemption for trading companies
- the absence of withholding taxes
- the absence of capital gains tax on the sale of shares in the holding company by foreign shareholders

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