

# International Business Review

## UK – Top destination for US investment

The UK continues to be Europe's leading investment destination for companies expanding and developing their global business. This article considers the different aspects setting the UK apart from other European countries like Ireland, Switzerland and the Netherlands.

### Easiest place to set up and run a business

The World Bank found that it takes 13 days to set up a business in the UK, compared to 20 days in Switzerland and 230 days in the Netherlands, with an overall European average of 32 days. The UK provides various options relating to the form of entity including the registration of an establishment (previously referred to as a branch) or a more permanent presence in the form of a UK subsidiary.

### Competitive corporate tax rates

The UK has a favourable progressive tax regime which remains attractive to the overseas investor. The starting rate is 21%, increasing to a maximum of only 28%, the lowest in the G7. In Ireland, trading income is taxed at 12.5% and non-trading income at 25%, whereas the rates could vary typically between 13% and 22% in Switzerland, taking into account both the federal and cantonal taxes. The Netherlands has a top corporate rate of 25.5%. Although these rates are generally lower than those in the UK, one needs to consider where the main client base is. If, as is often the case, this is in the UK, a US company would need to set up an entity in this country. The question then is, does the business model warrant a sub-holding company in one of the other lower tax jurisdictions? The answer will only be "yes" where the entity in the lower tax jurisdiction can genuinely create income that can be taxed in that country. Any artificial transfer of income would be challenged by the tax authorities. It is not a surprise therefore that only a small number of companies find this option financially viable.

### The lowest withholding tax rates

An extensive network of double taxation treaties with countries worldwide ensures that businesses coming to the UK will not have their income taxed twice. The following chart contains the withholding tax rates that are applicable to dividend, interest and royalty payments by various countries to the entities in the United States under the tax treaties in force.

	Dividend (%)	Interest (%)	Royalty (%)
United Kingdom	0	0	0
Ireland	5/15	0	0
Switzerland	5/15	0	0
Netherlands	0/5/10/15	0	0

Note: Where more than one rate specified, the rate depends on the shareholding of the beneficial owner.

### Foreign dividends

From 1 July 2009, receipts of dividend income and other distributions, whether from foreign or UK companies, will be exempt from tax for all companies (large and small), with limited exemptions. This is a significant move towards increasing the UK's attractiveness and competitiveness as a location for holding companies. Unlike the UK, foreign dividends are generally fully taxable in Ireland but a credit for the foreign tax paid is available. In Switzerland and the Netherlands, foreign dividends are usually exempt but certain conditions need to be satisfied.

### No tax on sale of subsidiary

Disposals by trading companies of substantial (at least 10%) shareholdings in other trading companies, whether based in the UK or overseas, are generally exempt. Broadly speaking, in order to qualify for the exemption, the parent company must have held at least 10% of the subsidiaries' share capital for a continuous 12 month period beginning not more than two years before the date of disposal. This makes the UK a very favourable location for a headquarter company.

### Incentives and reliefs available

Whilst the UK could never be considered a tax haven, the UK Government has introduced a number of incentives and reliefs to ensure that the UK remains competitive with other European jurisdictions.

*Research and development (R&D)* – An enhanced deduction is available for certain expenditure on R&D of 175% for small and medium size companies and 130% for large companies. For small and medium size companies which have tax losses, a cash repayment of up to £24 for every £100 spent on R&D can be claimed. Where an overseas parent company subcontracts the R&D work to its UK subsidiary, the latter will only qualify under the scheme for large companies. In addition, capital allowances for 100% are available on expenditure on capital assets, excluding land, used for R&D activities.

*Trading losses relief* – If a UK company incurs a trading loss, it can relieve it against the profits of the same accounting period; then the previous 12 months generating a possible repayment; and any unused loss is then automatically carried forward indefinitely against future profits of the same trade.

*Capital loss relief* – Similarly, any capital losses are carried forward indefinitely to offset against capital gains. Groups of companies can also notionally transfer capital assets (such as properties) within the group without triggering any tax charges and without having to transfer legal ownership. This allows capital gains to be sheltered in group companies with capital losses.

*Group relief* – Where a UK company is a member of a group, it can surrender any unused current year losses to another UK group company to reduce that company's taxable profits. The relief extends to UK permanent establishments of non-resident companies and overseas permanent establishments of UK companies.

*Capital allowances* – Depreciation is replaced by capital allowances for tax purposes in respect of capital expenditure. The amount of capital allowances is broadly dependent on the type and the size of the business; and the nature of the expenditure incurred.

### Manageable tax filing requirements

The UK tax authorities allow 12 months after the year-end to file the corporation tax returns which is much more generous than most of the other European countries. Ireland gives 9 months, Switzerland has complex combined filing requirements at both federal and cantonal levels; and the Netherlands gives 6 months after the year-end to file the return.

### Income tax and social security costs

	Highest income tax %	Social security	
		Employer %	Employee %
United Kingdom	50	12.8	11
Ireland	41	10.75	6.5
Netherlands	52	18.78	6.9
Switzerland	11.5 + cantonal	12.1 combined + 18 for pension	

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