

Specific Holding Company Advantages

- For foreign subsidiaries – nil or reduced withholding tax on dividends paid up to UK holding company due to extensive UK double taxation treaty network.
- The UK taxes dividends, probably @ 28%, but a tax credit is available for the subsidiary's underlying corporation tax. As in most instances, this will be greater than the UK tax, there is unlikely to be any further tax in the UK.

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Specific Holding Company Advantages

- In the UK, there is no withholding tax on dividends paid to anywhere in the world, even to a trust, tax haven holding company or foundation/anstalt.
- On sale of the subsidiary, there will be no UK Capital Gains Tax if:
 - The holding in the subsidiary is at least 10%, and
 - The shares in the subsidiary have been held for at least 12 months in the 2 years prior to sale, and
 - The holding company is a trading company, or part of a trading group.

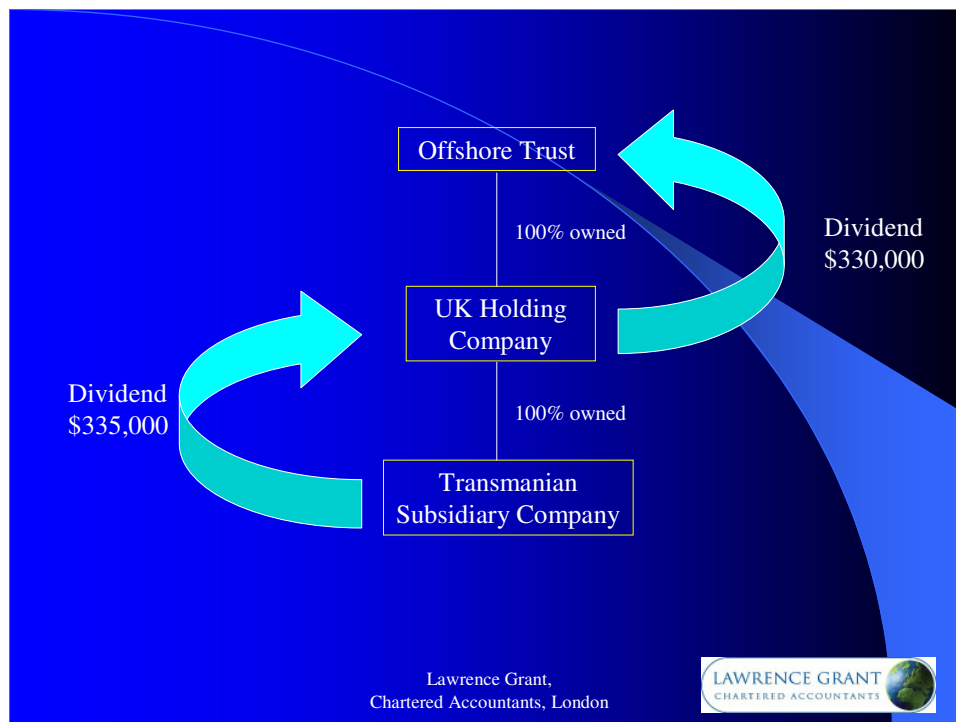
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Specific Holding Company Advantages

The UK has significant fiscal respectability among most nations' tax authorities and is not perceived to have the "smell" of a tax planning device.

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USE OF UK HOLDING COMPANIES

SUBSIDIARY COMPANY (SAY IN TRANSMANIA)

	US\$
Profit before Tax	500,000
Tax (say at 33%)	<u>(165,000)</u>
Profit After Tax	335,000
Less: Withholding tax on Dividend to UK Holding Company (assumed per DTA to be nil)	0
Net Dividend to UK Holding Company	<u>335,000</u>

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USE OF UK HOLDING COMPANIES

UK HOLDING COMPANY

	US\$
Dividend Received from Transmanian Subsidiary	335,000
Grossed up for Transmanian tax	<u>165,000</u>
	500,000
Running Costs – UK Holding Company, say	<u>(5,000)</u>
	495,000
UK Corporation Tax @ 28%	138,600
Less: Credit for Transmanian Tax	<u>(165,000)</u>
UK tax to pay	0
Profit after Tax	330,000
Less: Withholding tax	<u>0</u>
Dividend paid to parent	<u>330,000</u>

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USE OF UK AGENCY COMPANIES

	US\$
Trading Profit	500,000
Running Costs	<u>(30,000)</u>
Profit Before Tax	470,000
UK Corporation Tax	<u>(1,100)</u>
Dividend to Parent	<u>468,900</u>

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UK AGENCY (or NOMINEE) COMPANIES

- In this scenario, a UK Company acts as an Agent/Nominee for an Offshore Company (any offshore company will work).

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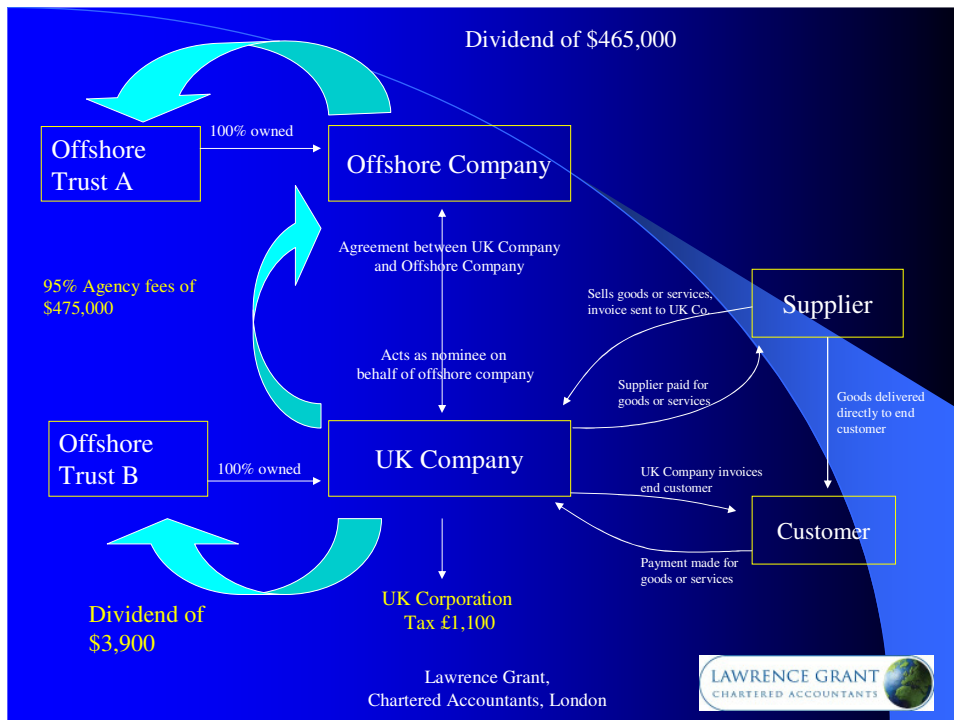
The two companies enter into an agreement whereby:

- Say 95% of income belongs to Offshore Company
- The UK Company retains 5% as an agency fee
- The UK Company contracts, in its name only, on behalf of the Offshore Company
- The UK Company prepares all invoices in its name
- UK Company receives the income into a bank account in its name
- The UK Company then splits off 95% of the income to the Offshore Company
- The UK Company retains its 5% fee and is taxed on this part only, less its running costs

Note:

Structure can be used for goods and services but not for interest or royalties receivable

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HOW IT WORKS

UK Company

		US\$
Trading Profit		500,000
Profit apportioned to Offshore Principal	95%	<u>(475,000)</u>
Profit (Commission) remaining in UK Company	5%	25,000
Running Costs UK Company, say		<u>(20,000)</u>
Profit Before Tax		5,000
Corporation Tax at 22%		<u>(1,100)</u>
Dividend to Parent (no Withholding Tax on Dividends in UK)		<u>3,900</u>

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OFFSHORE PRINCIPAL, SAY A BVI COMPANY

		US\$
Profit Apportioned from UK Company	95%	475,000
Running Costs Offshore Company, say		<u>(10,000)</u>
Profit Before Tax		465,000
Corporation Tax		<u>0</u>
Dividend to Parent		<u>465,000</u>

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COMBINED PROFIT POSITION

	US\$
Total Trading Profits (Offshore Principal & UK Agency Company)	500,000
Running Costs	<u>(30,000)</u>
Profit Before Tax	470,000
Corporation Tax	1,100
Dividend to Parent	<u>468,900</u>

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The following areas are critical:

- The agreement
- Banking arrangements
- Ownership of the companies
- Directorships of the companies

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Major Advantages

- Only the UK company is visible to the outside world, hence commercial and fiscal respectability
- The overall effective tax rate suffered will almost certainly be something less than 1%
- The beneficial owners are free to deal with the Offshore Company's income as they wish

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