

HOLDING COMPANY STRUCTURE FOR YOUTH4YOU

BACKGROUND

- Ms Purple has invented a new medical device which stops people ageing (“Youth4You”).
- Further development is needed before the device can be sold commercially and therefore there is little value in the intellectual property (“IP”) at this time.
- Once the relevant testing has been completed and the appropriate licenses have been obtained, the product is to be sold globally and is expected to result in phenomenal profits.

ISSUES TO CONSIDER

- ◉ Location of holding company
- ◉ Separate IP company?
- ◉ Financing
- ◉ Withholding tax on royalties
- ◉ Repatriation of profits
- ◉ Future exit - where will they float the company?
- ◉ Company residence
- ◉ Transfer pricing
- ◉ Legal framework including IP security
- ◉ Political stability

ATTRIBUTES OF HOLDCO LOCATION

- ◉ No withholding tax on dividends payable to shareholders
- ◉ Good tax treaty network or EU member
- ◉ No tax on dividends received
- ◉ Participation exemption for capital gains
- ◉ No CFC provisions
- ◉ Low rate of corporation tax

ADVANTAGES OF UK HOLDCO

- ◉ 20% corporation tax
- ◉ Exemption for dividend income
- ◉ No dividend withholding tax
- ◉ Substantial shareholdings exemption
- ◉ Extensive treaty network
- ◉ Deduction for interest costs
- ◉ Exemption for branch income
- ◉ Simplified controlled foreign company rules

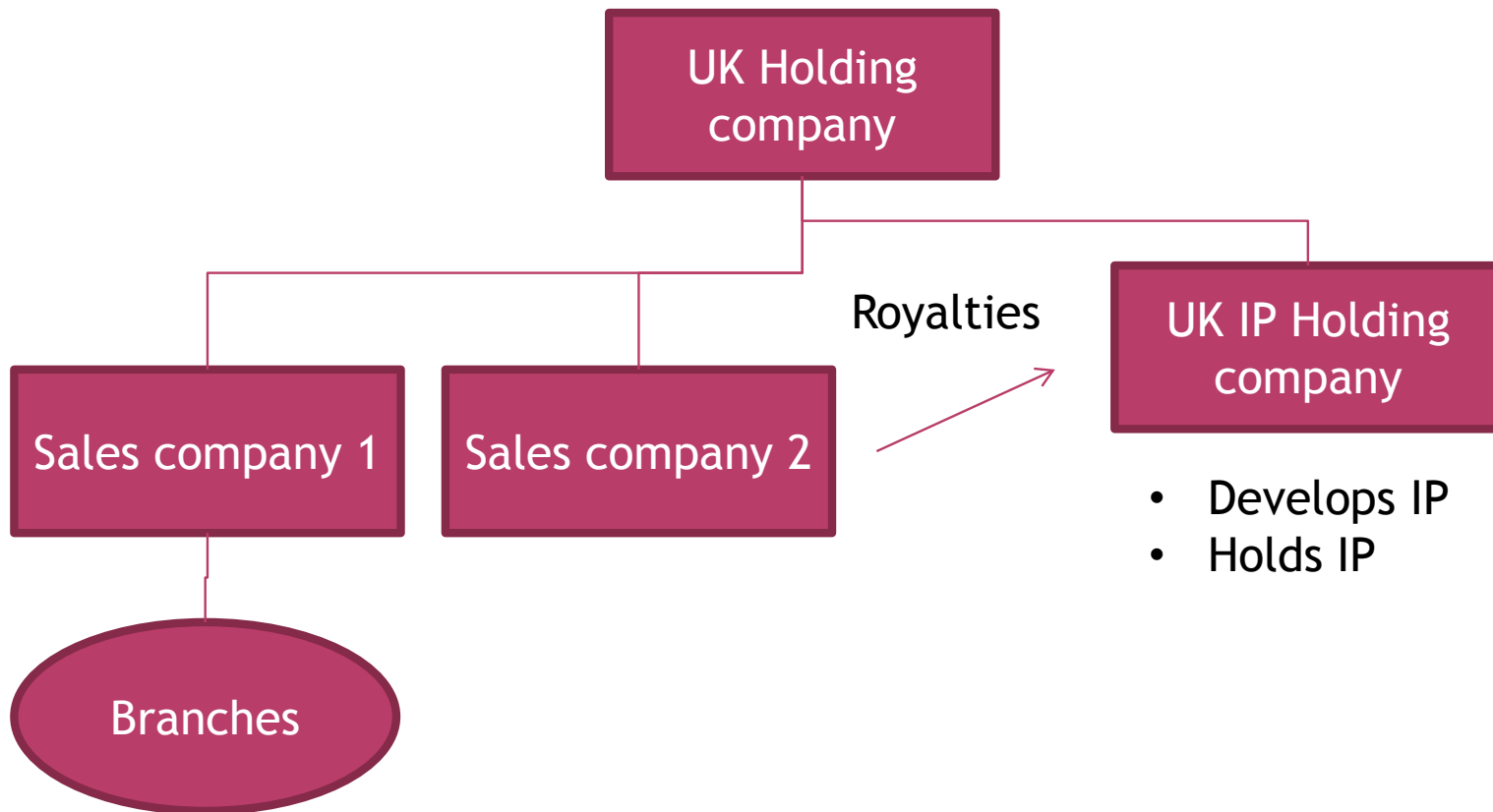
ATTRIBUTES OF IPCO LOCATION

- ◉ Tax incentives for IP development
- ◉ Low rate of tax on royalty income or a regime that only taxes a portion of the royalty income, or deduction for IP amortisation
- ◉ No withholding tax on dividends paid to shareholders
- ◉ Tax treaty network to minimise withholding taxes on royalty income
- ◉ Legal and political stability
- ◉ Deduction for interest payable

COMPARISON OF IPCO LOCATIONS

	R&D incentives	Tax on royalty income	Dividend WHT to UK	Treaty network	Legal & political
Ireland	25% tax credit	2.5% - 12.5%	0%	Good	Possible changes to taxes
Netherlands	Deduct 60% certain expenses	5% Innovation Box	0%	Good	Good
Luxembourg	N/A	5.7%	0%	Good	Good
UK	30% tax credit	10% Patent Box	0%	Good	Good

RECOMMENDED STRUCTURE



BENEFITS OF STRUCTURE

- ◉ UK holding company can receive and pay dividends without tax charge
- ◉ Tax incentives for research and development
- ◉ Lower administrative costs as only one set of premises required
- ◉ UK group taxation available
- ◉ Ms Purple would like to live in London
- ◉ Relatively low profits in sales companies as value is in IP company
- ◉ Future float on UK stock exchange provides access to capital markets

IMPORTANT ISSUES

- ◉ Tax residence - substance needed in each country
- ◉ Transfer pricing - all transactions must be at arm's length rates
- ◉ US venture capital company to confirm structure is acceptable with their US advisors
- ◉ Ms Purple may wish to relocate from France whilst the value is low to optimise her personal tax position
- ◉ Review grants and incentives based on specific details of product