The UK as a European Headquarters location for Brazilian groups

UK government policy has consistently stated the aim of creating the most competitive tax system in the G20 and enhancing the attractiveness of the UK as a place to do business.

Why establish European Headquarters?
It is common for groups to establish regional headquarter companies to own investments outside of the home jurisdiction. One reason for this is that it is usually easier to manage subsidiaries in a particular geographical region (e.g., Europe) where there is a central location in that region from which the other subsidiaries and businesses are owned and often funded. However, it is important that the company does not create additional tax costs or inefficiencies on setting up, receiving and paying dividends or selling shares, and that the country concerned has an attractive policy environment and a stable tax regime.

Why choose the UK?
The UK is a full member of the European Union, with a robust political regime, stable government, an established and respected legal system, and no legal restrictions on foreign ownership of UK assets. Furthermore, the UK is a firmly established international trading nation, boasting world-class infrastructure, including London Heathrow, one of the world’s busiest international airports (with more than 20 direct flights a week to Brazil), as well as a diverse and multicultural workforce. In addition to no exchange controls and an extensive network of bilateral investment treaties, the UK also has a tax framework conducive to investments and one of the most comprehensive double tax treaty networks of any country.

Why others have chosen the UK
Over the last 10 years, successive UK governments have implemented a number of targeted legal and tax changes to improve the attractiveness of the UK as a jurisdiction for investments. These changes, together with already existing aspects such as the lack of a domestic dividend withholding tax, have succeeded in attracting significant investment into the UK. Based on EY’s 2014 UK Attractiveness Survey, the UK maintained its lead as Europe’s top foreign direct investment (FDI) destination, which reinforces the UK as the preferred location for many international companies.
Setting up a UK company

► Establishing a UK company is generally straightforward and the setup costs can be minimized.
► The cost of maintenance of a UK company is low.
► Company law is relatively flexible, for example, there are no restrictions on paid-up share capital required in a UK company.
► There is an ease of repatriation of profits to Brazilian investors with no UK tax cost.
► The UK has one of the most extensive double tax treaty networks, comprising treaties with over 100 jurisdictions.
► The UK tax framework has many business friendly attributes, including a low corporate tax rate (20% by 2015), no withholding tax on dividend payments, no capital duty on share issues, an exemption on certain capital gains, an exemption on most dividend income, generous rules on interest deductibility and the ability to consult the UK tax authority for advance rulings.
► The UK has a robust and highly respected tax authority, which is keen to engage with groups that wish to gain certainty on the tax treatment of many UK-based activities, either on a unilateral or bilateral basis.
► The quality of life in the UK is good, in particular the diversity and culture on offer in London and other cities and a favourable personal income tax regime for expatriates.
► The UK also has an attractive tax regime for certain other activities, including amortization of business goodwill and other intellectual property, research and development incentives (a 10% “above the tax line” income statement credit) and a 10% corporation tax rate for certain profits arising from patents.
Tax rules for companies with European Headquarters in the UK:

► Corporate tax rate — historically, the UK had a high rate of corporate income tax. However, from 1 April 2014, the main rate of corporate tax is 21%, and the rate will decrease to 20% by the financial year beginning 1 April 2015 (currently the lowest in the G7 and joint lowest in the G20).

► Inward Investment Support (IIS) — significant inward investors can apply to the IIS for a range of services. For example, to fast track an application toward agreement on given tax issues, where otherwise there may be uncertainty as to the interpretation and application of a given law.

► Withholding taxes (WHT) — dividends paid by UK resident companies are not subject to withholding tax, which is a significant advantage for a Brazilian investor.

► WHT on interest — interest may be subject to 20% WHT but reduced under a relevant double tax treaty (but not with Brazil as there is currently no treaty in place) or certain statutory exemptions.

► Capital gains tax — where a UK company disposes of a substantial shareholding interest (more than 10% share capital), any gain or loss on disposal may be exempt (the “substantial shareholding exemption”). While a number of tests apply before this exemption is available, these are usually satisfied if the investee company is trading and the investing company is a member of a trading group.

► Dividend income — a dividend or other income distribution received is generally exempt from UK corporate tax, provided a number of conditions are satisfied.

► EU Parent-Subsidiary exemption — WHT may not apply on dividends from EU subsidiaries, provided certain criteria are met.

► Loss utilization — trading losses can be carried back three years and carried forward indefinitely, subject to certain anti-avoidance rules. Group relief between group companies (the surrender and offset of losses) may be available.

► UK controlled foreign company (CFC) — UK CFC laws have been subject to a major rewrite, thereby making them much more favorable. The new rules are effective for accounting periods of the relevant CFC beginning on or after 1 January 2013. Broadly, their purpose is to now only impose a CFC charge in the UK on the “artificial” diversion of UK profits.

► Overseas branches of UK companies — subject to an election being made, it may be possible to exclude the profits or losses of overseas branches from UK corporate tax.

► Patent Box — companies with certain profits in respect of patents may be able to pay a reduced corporate tax rate of 10%.

► Stamp duty — although stamp duty at 0.5% is payable on the acquisition of shares, this is not an annual charge and is only payable by a buyer on the initial acquisition or transfer of shares. There is no capital duty.
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How EY can help
EY in the UK has considerable experience of advising and guiding foreign companies on the establishment of a UK holding company to own and finance foreign investments, undertaking due diligence and structuring cross-border transactions from a transaction support and tax perspective. We have strong working relationships with UK government bodies, including the Treasury, and the UK tax authorities.

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