The UK as a favoured location for Indian investments
Over the course of multiple parliaments under different political leadership, UK Government policy has consistently aimed at creating the most competitive corporate tax system in the G20 and enhancing the attractiveness of the UK as a place to do business.
Why choose the UK?

The UK has a stable business climate and government, an established and respected legal system, and generally no legal restrictions on foreign ownership of UK assets. It also has no foreign exchange control rules, a favorable tax framework and one of the most comprehensive double tax treaty networks of any country in the world.

Over the years, successive UK governments have implemented a number of targeted legal and tax changes to improve the attractiveness of the country as a regional hub and a gateway jurisdiction for investments into the UK, Europe, developing markets and the US.

Based on EY’s 2016 UK Attractiveness Survey, the UK maintained its lead as Europe’s top foreign direct investment (FDI) destination. 2015 also saw a 58% increase in projects from India. These figures reinforce the UK’s position as a preferred location for many international companies.
What makes the UK a preferred location to do business?

Our UK attractiveness survey showed that from an investment location perspective, the UK is attractive for foreign companies because of the following:

► Quality of life, diversity, culture and language
► Technology and telecommunications infrastructure
► Stability and transparency of the political, legal and regulatory environment
► Breadth and depth of its investor pool
► Entrepreneurial culture and entrepreneurship
► Stability of the social climate
► Education in trade and academic disciplines
► Wide range of government grants

A few relevant statistics are below:

According to the Global Innovation Index (GII), the UK is the best place in the world to do research, innovate and grow – better than the US, Singapore and Germany three times in succession.

The UK is a highly cost-competitive country to do business.

The UK has been a popular destination for Indian investments for over 100 years.

The UK ranks lowest in the G7 for costs of establishing a business.

The UK provides the most flexibility of wage determination across G20 countries.

The UK has the lowest industrial labor costs in Western Europe and lower redundancy costs than the Netherlands, Switzerland, France and Germany.

The UK currently has the joint lowest statutory corporate tax rate in the G20, and is hoping that its scheduled rate reductions will make it the lowest by 2020.
Specific benefits available to those setting up in the UK or establishing a UK HQ/regional hub are as follows:

► Establishing a UK company is generally more straightforward, and setup costs and maintenance costs are lower compared with most developed countries. The UK offers a same-day incorporation service, which can be done electronically as well.

► Businesses in the UK have the flexibility to decide their legal structure. For example, the articles of association that a company adopts can be highly tailored and there are a variety of structures to choose from to suit specific requirements. The documents that companies must file are kept on a public register, enabling transparency.

► UK company law was simplified recently and the legal restrictions are, therefore, less onerous than in many other territories. For example, a private limited company can be incorporated with just one share with a nominal value of £0.01 and there are no restrictions on the paid up share capital required in a UK private limited company. The repatriation of profits is also straightforward. For example, capital reduction is relatively simple (provided the private limited company is solvent), as are dividend payments (provided there are profits available for distribution).

► In certain circumstances, companies can migrate their tax residence from other jurisdictions into the UK by establishing their place of central management and control in the UK.

► The UK has one of the world’s largest networks of double taxation agreements and bilateral investment treaties, including a comprehensive tax treaty with India, which became effective in 1994.

► The UK offers competitive reliefs for innovative and high-tech industries, including a very attractive R&D credit regime and a Patent Box, which provides a 10% rate of corporation tax (after the transitional period expires on 31 March 2017) on profits from the development and use of patents and certain other intellectual property in the UK.

► The UK has a robust and highly respected tax authority, which is keen to engage with groups that wish to gain certainty on tax issues domestically, as well as a treasury department that consistently demonstrates commitment to early and transparent consultation on tax law change.
What makes the UK a good location for an international HQ?

Indian companies investing into the UK, Europe and the US may find that the UK is an attractive HQ jurisdiction commercially as well as from a tax perspective. The key features of the UK in this context include the following:

A low headline statutory rate of corporation tax: It is currently 20%, with further reductions timetabled to come into force by 2020.

► No or reduced UK withholding taxes (WHT): Dividends paid by UK resident companies are not subject to WHT under UK domestic law. WHT on interest payments may apply, but the rate is reduced to 15% under the India–UK treaty and is reduced further under other treaties, or if the debt qualifies for certain UK statutory exemptions (in which case WHT will not apply).

Low WHT (zero in many cases) on dividends from overseas subsidiaries to the UK based on the extensive tax treaty network.

► Exempt dividend income: A dividend or other income distribution received by a UK company is generally exempt from UK corporate tax under domestic law, provided the conditions of the dividend exemption are satisfied.

Overseas branches of UK companies: It may be possible to exempt the profits or losses of overseas branches of UK companies from UK corporate tax – i.e., the overseas branch of a UK company will be exempt from UK corporation tax.
The UK as a favoured location for Indian investments

• Territorial controlled foreign company (CFC) rules: The CFC rules in the UK are narrow in application by design. The purpose of the rules is broadly to only impose a CFC charge in the UK on the “artificial” diversion of profits from the UK.

• Capital gains exemption: The UK has a substantial shareholding exemption (SSE), which provides a tax exemption on any capital gain or loss on certain disposals of more than a 10% interest in share capital. While a number of conditions have to be met before this exemption is available, these are likely to be satisfied if the investee and investing company are trading (operating) companies or members of a trading (operating) group for a specified period before and immediately after the sale. The Government recently started a consultation process to consider whether the scope of the SSE could be broadened and simplified.

• Flexible loss utilization rules: Trading losses in the UK can, essentially, be carried back one year and carried forward indefinitely, subject to certain anti-avoidance rules. Group relief between group companies in the UK (the surrender and offset of current year losses) is also available. The Government is currently consulting on a potential reform of the UK’s carried forward loss rules under which the profits against which carried forward losses can be offset may be widened and their utilization limited in most cases to 50% of annual profits.

• Stamp taxes: Although stamp taxes at 0.5% are generally payable on the acquisition of shares, they are not an annual charge and are only payable by a buyer on the initial acquisition or transfer of shares. There is no capital duty.

• Inward Investment Unit (IIU) of HMRC: Significant inward investors can apply to the IIU for confirmation of the tax consequences of an investment into the UK, for example, where there may otherwise be uncertainty about the interpretation and application of UK tax law.

• Territorial controlled foreign company (CFC) rules: The CFC rules in the UK are narrow in application by design. The purpose of the rules is broadly to only impose a CFC charge in the UK on the “artificial” diversion of profits from the UK.

• Capital gains exemption: The UK has a substantial shareholding exemption (SSE), which provides a tax exemption on any capital gain or loss on certain disposals of more than a 10% interest in share capital. While a number of conditions have to be met before this exemption is available, these are likely to be satisfied if the investee and investing company are trading (operating) companies or members of a trading (operating) group for a specified period before and immediately after the sale. The Government recently started a consultation process to consider whether the scope of the SSE could be broadened and simplified.

• Flexible loss utilization rules: Trading losses in the UK can, essentially, be carried back one year and carried forward indefinitely, subject to certain anti-avoidance rules. Group relief between group companies in the UK (the surrender and offset of current year losses) is also available. The Government is currently consulting on a potential reform of the UK’s carried forward loss rules under which the profits against which carried forward losses can be offset may be widened and their utilization limited in most cases to 50% of annual profits.

• Stamp taxes: Although stamp taxes at 0.5% are generally payable on the acquisition of shares, they are not an annual charge and are only payable by a buyer on the initial acquisition or transfer of shares. There is no capital duty.

• Inward Investment Unit (IIU) of HMRC: Significant inward investors can apply to the IIU for confirmation of the tax consequences of an investment into the UK, for example, where there may otherwise be uncertainty about the interpretation and application of UK tax law.
UK’s exit from the EU

The new UK Prime Minister Theresa May has clearly stated her intention to proceed with the UK’s exit from the EU. Finalizing the exit is likely to take two years from when the UK formally notifies its intention to leave. While this means that there will be some uncertainty on the framework for future dealings between the UK and the EU, it is important to note that the UK’s attractiveness (as discussed here) is rooted in the UK’s domestic tax and regulatory framework and is not dependent on the UK’s membership of the EU.

On leaving the EU, the UK is aiming to achieve greater flexibility in determining its fiscal and global trade policies, and we expect a renewed focus by the UK Government on improving the UK’s attractiveness for business through targeted incentives (subject to any continuing state aid restrictions) and greater government support for inbound businesses. We also expect the UK to ensure that its laws on employment and wage determination remain competitive compared to other European countries.

The UK’s exit from the EU may have different degrees of impact for trade between the UK and the EU in different sectors.

In our view, the impact is not expected to be significant for the following:

► UK-based holding company and sub-holding company activity
► UK-based treasury centers
► Regional management hubs
► Unregulated service centers
► Regional intangible assets holding activity in unregulated sectors

The UK’s exit from the EU is expected to have a more significant impact on the UK’s physical trading hubs, with significant UK/EU trade in physical goods, and most significantly in the context of regional hubs for regulated financial services (especially banking, insurance and asset management).

India is one of the largest foreign investors into the UK and there is substantial trade between the two countries. There appears to be a clear recognition of this with the UK’s business secretary already making a visit to India shortly after the EU referendum to discuss how the India–UK trading relationship might work after Brexit.
The UK has a mature and generous R&D incentive offering, including both an above-the-line Research & Development Expenditure Credit (RDEC) for revenue expenditure and Research & Development Allowances (RDAs) for capital expenditure. These reliefs are available to companies undertaking work in the fields of science and technology to advance technology through the resolution of uncertainty.

The RDEC is a taxable credit paid at a headline rate of 11%. For a 20% corporation tax payer, this typically results in a net benefit of 8.8% after tax. In addition, where there are no tax liabilities, companies may be eligible for a payable tax credit. Qualifying expenditure includes staffing costs, externally provided workers (such as third-party contractors and connected party employees), software, consumable materials and payments to qualifying bodies.

There are no IP ownership requirements for claimant companies, which means that subject to a review of the facts and circumstances, expenditure on undertaking projects for the ultimate benefit of clients can be considered eligible for the relief.

Of specific interest for Indian headquartered multinational organizations is the potential for inclusion of expenditure incurred in work undertaken outside the UK to be included within R&D claims, due to the lack of territorial constraints. This can increase the benefit available, though it is dependent on the project and the expenditure meeting the conditions for relief.

EY has developed significant experience in assisting Indian companies prepare, submit and obtain agreement to claims for R&D reliefs and credits across the IT, travel and tourism, manufacturing and pharmaceutical sectors. Our success is based upon developing detailed insights into claimant companies and our close working relationship with HMRC to develop robust yet flexible methodologies to ensure that companies realize the benefit they are entitled in a cost-effective and sustainable manner.
In line with the UK Government’s support for innovation, there are a number of grant funding opportunities at the local (regional) and national levels, mainly through Innovate UK. European Union (EU) grant funding may also be available as long as the UK remains within the EU (through the Horizon 2020 program).

For both of these opportunities, the relevant bodies publish “calls” or “competitions” for areas of science and technology for which they would like to offer funding. Companies are then able to identify opportunities within their forward-looking project portfolio that are aligned with the funding offers. In some cases, funding offers require collaboration between partners in project delivery.

Innovate UK has an annual budget of around £600 million, of which over £200 million is allocated directly to cash grant funding for projects in a wide range of sectors such as manufacturing, information communication technology (ICT), automotive, food and health technologies, and energy. The grant awards range from tens of thousands to several million pounds per project. There is a broadly simplified application process, with funding available for typically up to 50% of total project costs (up to 100% in some cases).

We have supported companies, including Indian headquartered businesses, across sectors in successfully applying for these grants through our understanding of what the respective bodies look for in an application.
Raising capital and/or debt in the UK

London’s Main Market, along with its sub-market the Alternative Investment Market (AIM), remains one of the major listing destinations globally, currently ranked second by both deal number and capital raised among global stock exchanges (after the New York Stock Exchange). This indicates the enduring strength of the London capital markets even in restrained periods globally. We have seen that well-priced businesses, often backed by private equity (PE) funds, attract investor interest and deliver strong aftermarket performance. Equally, the pipeline for future listings is strong, with companies targeting longer-term listing dates. London has been a world leader in capital markets innovation, with early issuance of rupee-denominated bonds to finance Indian investments as well as Renmimbi and Renmimbi green bonds to finance Chinese investment.

In the UK, investors are prepared to analyze each stock on its merits and so the specific characteristics of individual companies appear to determine their success rather than general investor sentiment.

London is the leading market in Europe for initial public offerings (IPOs). In the year to date in 2016, the Main Market and AIM accounted for 45% of European listings and hosted two of the top five largest IPOs globally.

How EY can help?

EY UK has considerable experience in advising and guiding Indian companies that wish to undertake business in the UK; in establishing a UK HQ for investments into the UK, Europe, the US and elsewhere; and in assisting groups in raising capital and debt in the UK. Our services range from undertaking due diligence to advising on structuring cross-border transactions from a transaction support and tax perspective. We have strong relationships with UK government bodies, including HM Treasury, and the UK tax authorities.

If you wish to discuss any of these aspects in more detail, please contact our India-based director Kannan Raman.

Kannan Raman
Director, Ernst & Young Limited, UK - India Branch
Tel: +91 98407 88025
Email: kraman@uk.ey.com
Ernst & Young LLP

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

© 2016 Ernst & Young LLP. Published in India.
All Rights Reserved.

EYIN1612-126
ED 0133

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither Ernst & Young LLP nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.