GERALD EDELMAN

Your essential guide to investing in the UK

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SUPPORTING YOUR INTERNATIONAL PLANS

Whether you are moving to the UK, investing in the UK, or looking to grow your business internationally, we know that it can be daunting. Understanding the different tax obligations and legal requirements alone can feel overwhelming.

At Gerald Edelman, our international tax accountants and advisers are here to minimise your exposure to tax, help you to achieve your goals and ease the compliance process from start to finish.

With an office in London, multilingual team and a thriving international network, XLNC, we're here to help individuals and businesses moving in and out of the UK. From tax, VAT and M&A support to wealth management and HR, we provide a one stop shop, giving you access to experts as and when you need them.

For help or support on any of the areas raised in this document, contact our team on 020 7299 1400 or email us at hello@geraldedelman.com.

WHY CHOOSE THE UK?

The UK has long been an attractive destination for foreign investors around the world – and for good reason.

Secure, stable economy and robust legal system

The UK's thriving commercial sector is underpinned by economic stability and a robust legal system, making it relatively easy to establish a commercial presence, source credit and register property.

Government incentives for different industries

The UK government offers a variety of incentives for businesses, these include tax breaks, grants and loans. This is especially true for the retail and technology sectors, where the UK is home to some of the world's most successful retailers, as well as some of the world's leading technology companies.

Highly skilled talent pool

The UK attracts an internationally mobile, diverse and highly skilled workforce. Even following its departure from the EU in 2020, the country has maintained strong ties with the European market, whilst also enhancing trade agreements with Australia, New Zealand, Japan, Iceland and Norway.

Financial epicentre

The UK currently holds claim to the sixth-largest economy in the world, and the fifth-largest for global innovation. It is a financial epicentre, home to the London Stock Exchange and several major financial institutions, such as HSBC and Barclays. This makes it easy for businesses to raise capital and access other financial services.

Protection of investor rights

Few countries offer the same commercial opportunities and protection of statutory rights, which is why the international business community views the UK as a preferred hub for global trade.

English – Language of business

English is the language of business in the UK. This makes it easy for investors from all over the world to communicate with businesses and government officials.

Most competitive tax regime in G7

The UK offers the most competitive tax regime of any G7 nation, with many incentives for those looking to set up a business venture on British shores.

Strong maritime sector

The UK has a network of 120 commercial ports handling over 500 million tonnes of freight each year, making it an attractive destination for businesses that are looking to import and export goods.*

*www.maritimeuk.org

GUIDANCE FOR BUSINESSES INVESTING IN THE UK

Every organisation is different, though we often come across similar challenges when supporting overseas business owners to expand their operations in the UK.

Your checklist for investing in the UK

1. Have a strategy

There are different routes to market in the UK. Do your research, especially on your target customers, and have a clear strategy in place. We advise you test this against different market scenarios to understand the impact of entering a new market on your business, e.g. on your supply chain, employees, customers etc.

2. Establishing a business presence

There are different ways in which to set up a business, make sure to decide on the best legal structure for your business and register it with Companies House. See page five for more information.

3. UK taxation

It is important that you understand the UK tax system, how the rules apply to your company and register for the relevant taxes. You will need to file annual tax returns and pay taxes on your profits. See page eight for more information.

4. Setting up a UK bank account

UK banks have different offerings, costs and requirements. Typically, this includes proof of identity for the business owners or directors, proof of address for the business and a copy of the business's registration certificate. The process can take several months. Be patient and allow plenty of time for the bank to process your application.

5. Regulatory compliance

When entering the UK, you will need to comply with all applicable UK regulations. This includes restrictions on foreign ownership, health and safety, environmental, and financial regulations.

6. Employment and immigration

If you plan to hire employees in the UK, you will need to comply with employment law and immigration regulations. If you wish to hire workers outside of the UK, you will also need to obtain a sponsor license. See page nine for more information.

7. Property

If you intend to rent or purchase premises for your business, it is important you understand the tax implications and regulatory requirements. We can support you in identifying different options and structures.

8. Intellectual property (IP)

IP registration in your home country will not always protect you in the UK. Make sure you protect your IP rights, such as patents, trademarks, and copyrights. You may wish to register your IP with the UK Intellectual Property Office.

9. Commercial law

You may need to consider commercial contracts to operate in the UK. For example, joint venture agreements, partnering agreements and consumer contracts. Therefore, make sure you have robust contractual terms in place.

10. Marketing

Develop a marketing and BD strategy to reach your target customers and grow your business. This should include online and offline marketing, as well as BD initiatives, such as networking and attending industry events.

Choosing the best business structure

There are many ways to facilitate foreign expansion and trade in the UK. From subsidiaries and joint ventures to mergers, franchises and representative offices, it's important to choose the structure which best suits your business interests and long-term objectives.

The two most common ways of setting up in the UK are to incorporate a private limited company as a subsidiary of an overseas parent company, or as a UK establishment, more commonly known as a branch office of an existing non-UK entity.

Private Limited Company – Subsidiary

Advantages

- ✓ A subsidiary is classed as a separate legal entity with limited liability from the parent company. Therefore, the parent company is not liable for any debts and is protected should the subsidiary become insolvent.
- ✓ Subsidiaries are only required to file their own accounts with Companies House, not the annual accounts and financial information of the parent company.
- ✓ Subsidiaries can access tax benefits and capital that is not available to the parent company.
- ✓ Subsidiaries can be managed more flexibly than a parent company and given its own management team and operating structure.

Disadvantages

- ✕ Any subsidiary that is classed as tax-resident in the UK will also be required to pay UK corporation tax on its worldwide profits. It is important that the company is resident for tax purposes too as otherwise there is a risk of double taxation.
- ✕ Subsidiaries can add complexity to a parent company's operations. For example, compliance with different regulations, such as the statutory directors' duties set out in the Companies Act 2006 and the requirement to produce group accounts.
- ✕ There are additional costs associated with forming and maintaining a subsidiary, such as legal, accounting and administration fees.

UK Establishment – Branch

Advantages

- A branch – also known as a permanent establishment – is a direct extension of the parent company that serves a specific geographical region. Therefore, it can offer less risk in accessing a new market.
- Branches can be set up quickly and easily, saving on costs.
- Only the profits attributable to the UK branch will be subject to UK corporation tax, although losses can also be offset against the profits of the overseas parent company.
- Branches are not required to comply with the same regulations as subsidiaries, reducing the complexity of managing the business.

Disadvantages

- The overseas parent company and the UK branch are classed as the same legal entity and share liability for all operations. The parent company is therefore required to file their full overseas accounts with Companies House.
- The parent company is responsible for the branch's debts and liabilities, increasing its risk exposure.
- Branches must still comply with the laws and regulations of the country in which they are located, which can be complex and time consuming.

UK Limited Liability Partnerships

Alternatively, UK Limited Liability Partnerships (LLPs) are increasingly used in the UK as tax efficient vehicles for non-UK international trading purposes.

Advantages

- ✓ UK tax is only payable on profits derived from trading in the UK. Any non-UK source of profits or gains made by an LLP will not be subject to UK tax unless the members are UK resident individuals or companies.
- ✓ UK LLPs do not need a base/headquarters in the UK.
- ✓ There are no restrictions on the residence or nationality of the members of the LLP.
- ✓ If carefully structured, a UK LLP's members will not be subject to UK taxation, if:
  - All members of the LLP are non-UK resident members
  - The LLP does not have any sources of income arising in the UK
  - The LLP does not own any assets or have an office in the UK

Disadvantages

- ✕ Setting up UK LLPs can be more expensive than setting up other business structures.
- ✕ UK LLPs are subject to more regulations than other business structures, which can make them more difficult to manage. For example, a partnership with a Corporate Member is not allowed to claim the very generous Annual Investment Allowance (AIA) which allows for a claim to be made of 100% of the expenditure on capital items.
- ✕ If there is a dispute between LLP members, it can be difficult to resolve. This is because UK LLPs are not subject to the same dispute resolution mechanisms as other businesses.
- ✕ Tax arising is payable by the partners/members of the UK LLP, depending on the level of profit this may result in higher tax being paid if other UK sourced income is received by an individual.

UNDERSTANDING UK TAXATION

UK Corporation Tax

The UK offers a competitive corporate tax rate. It also has an extensive network of double taxation treaties, mitigating the risk of tax being paid simultaneously in two different countries.

All incorporated companies in the UK are subject to Corporation Tax, though only on profits which are related to activities conducted within the country. As of 1 April 2023, the current rate of Corporation Tax is set at 19% on profits up to £50,000. 25% is charged on profits between £50,000 and £250,000. However, companies are given marginal relief meaning companies with profits near £50,000 pay closer to 19% and those closer to £250,000 pay closer to 25% . If a business reports profits above £250,000 then they must pay a flat 25% rate on all profits.

Corporate tax advantages

- Dividends received by UK companies are generally free of corporation tax.
- There are no withholding taxes on dividends paid. This is irrespective of where the shareholder is resident and irrespective of the nature of the shareholder, e.g. an individual, another company (UK or non-resident), a trust, foundation or any other.
- The UK is purported to have the largest Double Tax Agreement network in the world. The consequence of this is much reduced, and often nil, withholding taxes levied by foreign subsidiaries of UK companies on dividends paid to the UK parent, as well as on other profit extraction payments such as interest and royalties.

The Annual Investment Allowance (AIA)

The AIA allows UK businesses to deduct the full cost of certain types of capital assets from their taxable profits in the year they are acquired. The AIA is available to all types of businesses, regardless of their size or sector to encourage them to invest in new plant and machinery. The annual limit for the AIA is currently £1 million.

Research & Development (R&D) Relief

R&D relief for Small and Medium Enterprises (SMEs) is given in two ways, either by an enhanced deduction for corporation tax purposes or by a payable tax credit. Both are acknowledged as among the most generous tax reliefs in global corporate tax.

The enhanced deduction allows SMEs to make an additional 86% deduction of certain costs on top of the standard deduction against their profits. Depending on the turnover of the company (due to variable rates of Corporation Tax) this means that the net benefit is that every £1 spent reduces your tax bill by up to 21.5 pence.

If the company is loss making, the company can claim a payable tax credit of 10% of the enhanced expenditure incurred. This means for every £1 spent, the company can claim a credit of 18.6 pence on their tax return.

HMRC is becoming stricter and increasing compliance checks on R&D claims, so any claim should be properly assessed by a professional, which we can help with.



The UK Patent Box

The Patent Box regime is a corporation tax relief that gives a reduced rate of tax of 10% on profits earned from a company's patented and other innovations.

Qualifying income includes the sale of patented items, licenced-in patent rights and compensation income from infringement of owned rights.

To calculate the tax relief, routine profits are deducted from total profits to arrive at "qualifying residual profit". Smaller companies, i.e. those with a qualifying residual profit of less than £1 million, may then deduct 25% for marketing asset return from residual profits. Larger companies have a different basis of calculation. In both cases, the balance is taxed at 10%.

Control and management

Control and management are concepts used to determine where a company is resident for tax purposes. Control is determined by who has the power to make decisions about the company, while management is determined by who is responsible for running the company on a day-to-day basis.
If a company is controlled and managed in the UK, it will be considered to be UK-resident for tax purposes. If a company is controlled and managed outside of the UK, it may still be considered to be UK-resident if it has a significant presence in the UK.

Transfer pricing

Transfer pricing is another consideration. Businesses with international transactions between group companies must ensure compliance with transfer pricing rules to avoid tax-related issues and potential penalties.

Your People

Hiring new employees and secondments

When sourcing new employees in the UK, it is important to be aware of the different tax implications for different employment contracts.

Additionally, if you place an internal team member on a secondment to the UK, it is important to ensure that they are properly taxed, which may involve registering them with HMRC and paying UK income tax and NICs on their earnings.

Employee share options

Employee share options are a form of deferred compensation that allows employees to buy shares in their employer's company at a discounted price. When employees exercise their share options they are liable to pay UK income tax on the difference between the exercise price and the market value of the shares.

Payroll requirements

UK employers have a number of payroll requirements, including registering with HMRC, deducting income tax and NICs from employee's wages, paying income tax and NICs to HMRC and preparing and submitting payroll returns to HMRC.

Local instructions for visa applications

Local instructions for visa applications vary depending on the type of visa being applied for and the nationality of the applicant. However, there are some general requirements that all businesses must meet when applying for a visa for an employee. These include:

- The business must be registered with UK visas and Immigration (UKVI).
- The business must have a valid sponsor license.
- The employee must meet the eligibility requirements for the visa they are applying for.
- The business must prove they can support the employee financially when they are in the UK.
- The business must provide evidence that they have a genuine need to hire the employee from outside the UK.

VAT – Value Added Tax

VAT is a tax on goods and services. The VAT rate in the UK is 20% with a reduced rate (5%) and zero rate on certain goods/services. Other supplies may be exempt, e.g., financial services.

VAT registration

When should you register for VAT?

- Overseas businesses established in the UK must register for VAT if turnover exceeds £85,000 either on a rolling 12-month basis or if you expect to exceed this in the next 30 days, even if it is a one-off supply.
- Overseas businesses registering as a Non-established Taxable Person (NETP). An NETP is any person who is not normally resident in the UK, does not have a UK establishment and, in the case of a company, is not incorporated in the UK. In this case, if you make any taxable supplies in the UK regardless of their value and including supplies of digital services you must register for VAT.
- Option to tax – if registering to rent out commercial property it may be beneficial to opt to tax the property when you register. This means you can reclaim all VAT on the purchase of the property and expenses. However, you must also charge VAT on the rent and sale of the property.
- If you import goods into the UK to sell you must register for VAT.

IMPORTANT – If you are a non-established taxable person (NETP) you must register for VAT as soon as you make any supplies.

Advantages of VAT registration in UK

- Unlike some EU states you don't need a fiscal representative, so VAT registration is a relatively straightforward and inexpensive process.
- PVA (Postponed VAT accounting) for imports – NETPs can use this in the UK. It is worth noting that a business does not have to separately apply for this as they do in some EU countries.
- Reduced and zero VAT rates – the UK government has more scope to tweak the VAT regime now that we are not bound by the EU.
- Cash flow advantage – a business can reclaim VAT on goods/services via a VAT return rather than a reclaim process.

Disadvantages of VAT registration in UK

- HMRC can be slow to process VAT registrations.

Trade Duties and Customs

Businesses can use the Customs Declaration Service (CDS) – this is the new single platform for imports and exports. All imports must now be processed through CDS however this is being phased in for exports which are currently using the old CHIEF system.

Importing goods into the UK

If you are importing goods into the UK, some key items you need to be aware of:

- An EORI number (Economic Operator Registration and Identification) is required – this is quick and easy to apply for electronically and can also be done during the VAT registration process if required.
- Decide whether to appoint someone to do customs declarations and transport goods on your behalf.
- You may be able to pay less or no Customs Duty if the UK has a trade agreement with the country being imported from.
- You may be able to reduce the amount of duty to pay based on what the goods are and what you intend to do with them.
- There are special rules and a business may need to get licences or certificates if it is importing certain goods.
- PVA (postponed VAT accounting). VAT-registered businesses can account for import VAT on their VAT Return using PVA. Accounting for VAT on the VAT Return in this way allows a business to declare import VAT and reclaim it as input tax on the same VAT Return. VAT incurred on imported goods can be reclaimed as input tax subject to the normal rules. This is a cash flow advantage – the VAT is declared and reclaimed on the return – the VAT is not paid upfront to Customs. This method of accounting is known as a reverse charge.*

*Note – Not all EU countries operate PVA or if they do there are conditions, i.e. in some cases a fiscal representative is needed in the country where PVA is available. The UK has no such restrictions.

Exporting goods from UK

If you are exporting goods from the UK, some key items you need to be aware of:

- An EORI number (Economic Operator Registration and Identification) is required – this is quick and easy to apply for electronically and can also be done during the VAT registration process if required.
- Decide who will make export declarations and transport goods, ensuring that evidence is kept for HMRC.
- Make export declaration and get goods cleared through UK customs.
- Indirect exports, where the customer picks the goods up in the UK for export, attract their own rules.
- If the goods were originally imported and attract duty, you may be able to consider reliefs.

> **Overseas businesses established in the UK must register for VAT if turnover exceeds £85,000 either on a rolling 12-month basis or if you expect to exceed this in the next 30 days.**

The 'M&A route'

Entering the UK market through the merger or acquisition of an established UK-based company can be an attractive option. Many organisations choose this route because it avoids the need to build a new venture from scratch, giving the foreign company immediate access to pre-existing revenue streams, suppliers, distributors and brand reputation.

This allows a quicker entry to the market and removes much of the doubt as to whether or not the venture has a good chance to succeed. The target company's historical performance and market reputation provide valuable insights into its stability and growth potential.

The value of inward mergers and acquisitions of foreign companies acquiring UK companies was £54.5 billion.

The latest stats from the ONS reveal that the value of inward mergers and acquisitions of foreign companies acquiring UK companies was £54.5 billion.

These figures are a good indication of the confidence in the M&A and foreign direct investment market. Deal activity has been very high since the pandemic; it did drop off in H1 2023, primarily due to rising interest rates, but now is a good time for inward UK investment due to reduced competitiveness in M&A transactions.

Tips for entering the UK market through a merger or acquisition

Setting up a successful business in the UK requires time, research and careful consideration at every stage, especially when preparing an entry strategy. To increase your chance of success, here are our ten key tips.

1. Do your due diligence

Before acquiring a business, it's important to do your due diligence. This includes reviewing the business's financial statements, legal documents, and customer contracts. You should also meet with the management team and employees to get their insights on the business.

2. Financing structure

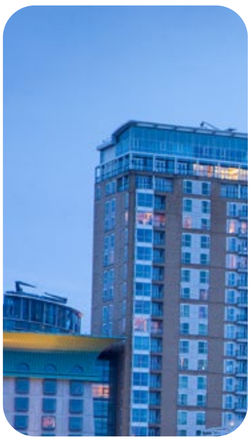
There are a number of different financing options available, and the best option for your acquisition will depend on your circumstances. Make sure you work with an adviser to assess your options and to choose the best one for your needs.

3. Assess the management team and organisational structure

This includes understanding the strengths and weaknesses of the current team, as well as the potential for improvement. You should also consider how the team and organisational structure will fit with your style and vision for the business.

4. Financial forecasting

This will help you understand your projected revenue, expenses and cash flow, enabling you to make informed decisions on your business.



5. Risk analysis

Understanding the potential risks to your business will help you to develop mitigation strategies.

6. Develop scenario plans

These will help you develop contingency plans for different scenarios, such as changes in the market or economic conditions.

7. Understanding the local laws and regulations

The UK tax system is complex so it's important to understand your tax obligations, as well as the regulatory environment and how you need to comply.

8. Extensive market research

This will help you to understand the size and growth potential of the UK market, as well as your competitors and the needs and preferences of your target customers.

9. Preparing a business plan

Once you've acquired the business it's important you prepare a business plan. This will help you to define your goals and develop a strategy.

10. Future technological changes

As an acquirer, you need to be prepared for future technological changes and how they will impact your business. This includes understanding the potential impact of new technologies on your products or services, your customers, and your competitors.

The UK offers international businesses a fantastic opportunity, including a pool of skilled talent, though it remains crucial to plan for recruiting, training and any work permit requirements for overseas employees. Cultural differences should also be kept in mind, not just in the promotion of products and services but also internal communications and employee engagement.

> Setting up a successful business in the UK requires time, research and careful consideration at every stage, especially when preparing an entry strategy.

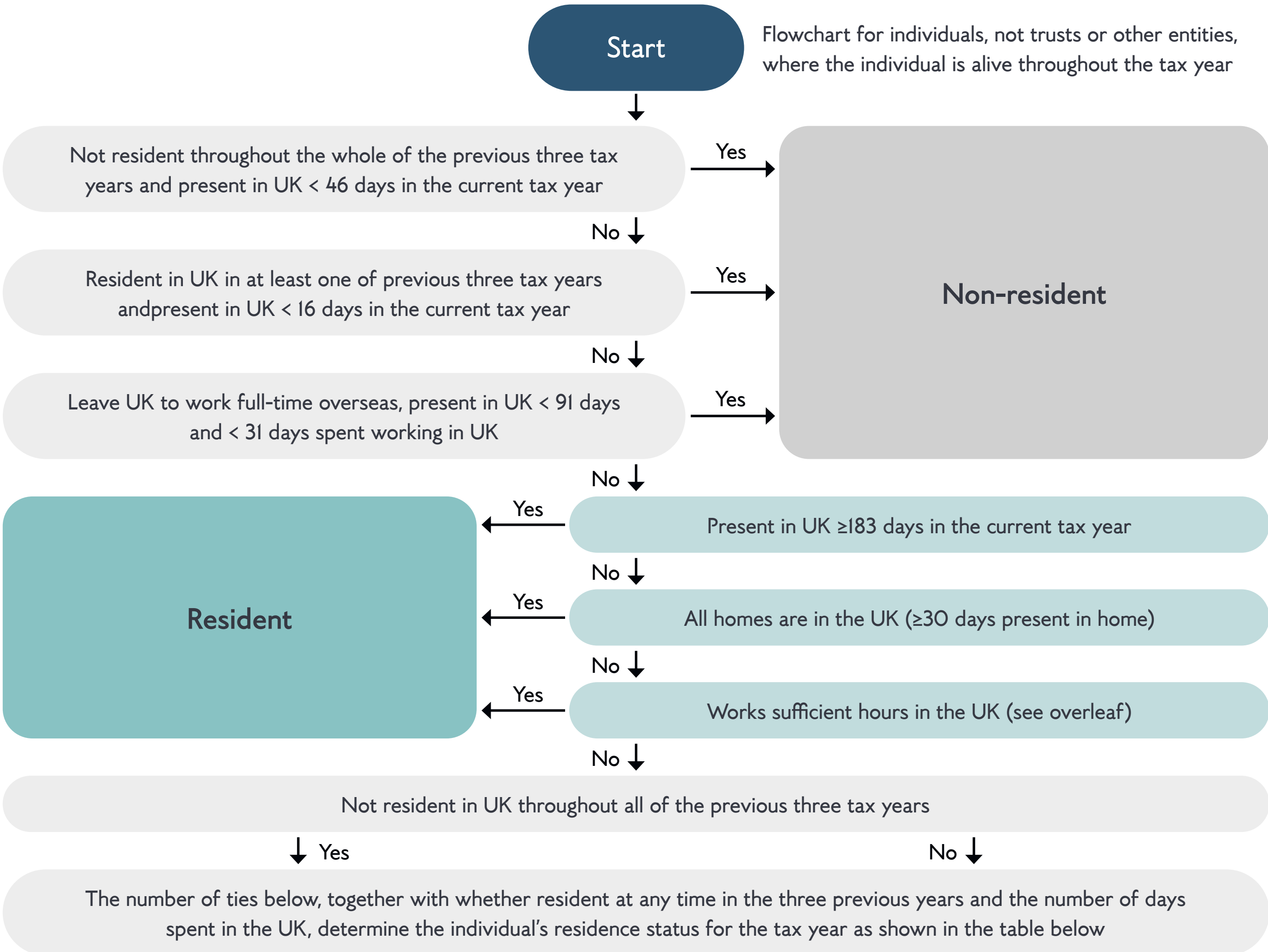
GUIDANCE FOR INDIVIDUALS MOVING TO THE UK

The UK is a popular choice for people who wish to work and build a life in another country, yet careful planning is needed to support the move and minimise exposure to tax.

Here are the most common challenges individuals face when moving, working or investing in the UK.

Residency

The rules around residency and domicile status in the UK are complex. An individual's residence status for a tax year is determined through the Statutory Residence Test (SRT). The test is based on several factors, including the amount of time the individual spends in the UK, as well as the location of their family, work, accommodation and homes.



Inbound	
UK Resident Family	
Substantive UK Employment ≥40 UK days in tax year	
Accessible UK Accommodation stayed in ≥1 night	
Present ≥91 days in either of previous two tax years	
Total ties	

Outbound	
UK Resident Family	
Substantive UK Employment ≥40 UK days in tax year	
Accessible UK Accommodation stayed in ≥1 night	
Present ≥91 days in either of previous two tax years	
Total ties	

Days in the UK tax year	When non-resident throughout the three prior tax years					When resident at any time in the three prior tax years				
	No UK ties	1 UK tie	2 UK ties	3 UK ties	4+ UK ties	No UK ties	1 UK tie	2 UK ties	3 UK ties	4+ UK ties
Fewer than 16 days	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
16 – 45 days	NR	NR	NR	NR	NR	NR	NR	NR	NR	R
46 – 90 days	NR	NR	NR	NR	R	NR	NR	NR	R	R
91 – 120 days	NR	NR	NR	R	R	NR	NR	R	R	R
121 – 182 days	NR	NR	R	R	R	NR	R	R	R	R
183 days +	R	R	R	R	R	R	R	R	R	R

Split year treatment

When it comes to planning your taxes, you need to take in to account the date that you become a UK resident. While the UK tax year runs from 6 April to 5 April, you might be considered resident from the date of your arrival in the UK, or from 6 April the year before or some other date entirely.

Applying split year treatment, allows for the tax year to be split into two parts – one part where you are taxed as a non-resident individual and one where you are taxed an UK resident individual. Establishing whether this applies to you is crucial.

Domicile

Domicile status is equally important. This refers to the country in which a person has their official permanent home, or with which they have a significant connection. There are three types of domiciles under general law: domicile of origin, domicile of dependency and domicile of choice.

It is possible for an individual to be resident in one country, domiciled (for English law purposes) in a second country, and a national of a third. This creates a range of planning opportunities and pitfalls which are crucial to understand to ensure you are staying within the law.

Retaining a foreign domicile may also be favourable in terms of minimising inheritance tax (IHT).

Pre-arrival tax planning

Having an understanding of UK tax law is essential, in particular how current tax regulations apply to your income, holdings and assets.

Before becoming a UK resident, it's a good idea to identify and maximise opportunities by taking relatively simple steps. Key planning points include:

- Taking advice to establish the date on which UK residence will commence.
- Identifying and maximising pre-arrival "clean capital" (funds which derive from pre-residence income or gains and can be remitted to the UK free of tax).
- Structuring overseas bank accounts to segregate clean capital from post-arrival non-UK income/gains, to enable tax efficient remittances of clean capital to the UK during residency.
- Rebasing assets for capital gains tax purposes prior to UK residency, to minimise tax on future disposals.
- Reviewing existing offshore structures, investments and business interests and restructuring where appropriate.

YOUR GUIDE TO KEY TERMS AND TAX RATES

Linking residency to domicile

If you are a UK resident non-domiciled individual, you have the choice to pay tax via two methods:

- Taxed on your worldwide income and gains (known as the “arising basis” or “worldwide basis”) in the same way as UK resident domicile individuals are, or

- Taxed on your UK source income and gains, and only on foreign income and gains to the extent that they remit such funds to the UK (known as the “remittance basis”).

If you can use the “remittance basis,” you only pay taxes on money and profits you bring into the UK. The default position is that you are taxed on the your worldwide income, and to claim the remittance basis you must do this on your annual tax return. You must decide each year if you want to use it or not. If you choose the remittance basis, you won’t get the tax-free allowances for your income and profits.

Non savings income tax rates

Bands and Allowances	Taxable income	Income Tax Rates
Personal Allowance	Up to £12,570	0%
Basic rate	£12,571 to £50,270	20%
Higher rate	£50,271 to £125,139	40%
Additional rate	over £125,139	45%

Dividend rates

Bands and Allowances	Taxable income	Income Tax Rates
Personal Allowance	Up to £12,570	0%
Dividend allowance	First £1,000*	0%
Basic rate	£12,571 to £50,270	8.75%
Higher rate	£50,271 to £125,139	33.75%
Additional rate	over £125,139	39.35%

*Dividend allowance will be reduced to £500 from 6 April 2024

Savings allowance

Income level	Savings Allowance
Up to £50,270	£1,000
£50,271 to £125,139	£500
Over £125,139	£0

Capital Gains Tax rates

Bands and Allowances	Tax rates on disposal of UK residential properties	Tax rates on disposal of other assets
Annual exempt allowance (First £6,000)	0%	0%
Basic rate taxpayer*	18%	10%
Higher and Additional rate taxpayers	28%	20%

*Taxable gains are added to your other taxable income so your gains may be taxed at the higher rate depending on your other income

Claiming the remittance basis

If you've lived in the UK for a while, you might have to pay a fee to use the remittance basis. If you've lived here for seven out of nine years, it's £30,000 per year. If it's been 12 out of 14 years, it's £60,000 per year. Keeping your original home country as your legal home can also be beneficial as any assets you own outside the UK, like property or money, usually will not be affected by inheritance tax.

Deemed domicile

As of April 6, 2017, if you've lived in the UK for 15 years out of the last 20, you're seen as a UK resident for all taxes, even if you're originally from another country. This means you cannot use the remittance basis, and you will have to pay taxes on everything you own worldwide, not just in the UK.

What is considered to be a remittance?

A remittance is any amount of money or other assets that is brought into the UK and enjoyed by a 'relevant person'. A relevant person may include yourself (the taxpayer), your spouse/civil partner, dependents, a business you control (i.e. you hold more than 50% share ownership) or trustee of a trust of which a relevant person is a beneficiary. The most common example of a remittance is a transfer of money from a foreign bank account to a UK bank account.



Double Taxation Agreements (DTA)

In some instances, individuals are taxed in the UK on their income and gains as well as in the jurisdiction in which the income and gains arose. DTA are therefore necessary to establish which country has the taking rights to avoid double taxation. The UK has negotiated DTA with many countries. You can view all the countries the UK has a DTA with at www.gov.uk/government/collections/tax-treaties.

Clean capital and segregation of funds

Clean capital refers to funds generated before an individual becomes UK resident. Ensuring funds are segregated is a crucial element of pre-arrival tax planning. Properly segregated clean capital funds is beneficial to ensure the tax-free treatment of such funds. Ensuring segregated bank accounts are held for income and capital gains is important to ensure mixed funds rules of taxation do not apply.

Mixed fund rules

If you correctly segregate your funds into different accounts, there is no exposure to tax on clean capital brought to the UK. However, if you do not, any remittances will be subject to 'mixed fund' rules even if the account contains clean capital. In short, mixed fund rules mean that any funds remitted to the UK from a mixed fund account is taxed in a specific order meaning you would be liable potentially high tax on income remitted.
In some cases, this means that income remitted would be taxed at 20%/40%/45% rather than nil if the accounts were properly segregated. Clean capital is always remitted last, so it is ***imperative*** that you organise your accounts prior to arrival in the UK. Funds remitted are taxed as income first, then gains and finally clean capital, there is more nuance to this, but this is the general rule.

Cross border considerations

Structures that are tax efficient in some jurisdictions may not be tax efficient in the UK. Therefore, before becoming an UK resident, you should review any existing trust or other structures you have in place and the impact of your UK residence on them. For example, if you are a beneficiary of an offshore trust, then becoming UK resident could potentially bring the offshore trust within the scope of UK taxation.

Estate planning

If you have UK assets, you will need to put in place a UK Will to deal with those assets. Your UK Will should take in to account any non-UK Wills to ensure they work together. If you have UK and non-UK assets you need to consider which succession law will apply to your estate and what Will/Wills you should put in place.

Inheritance tax rates

Bands and allowances	Taxable value	Rate
Nil rate band (NRB)	£1 – £325,000	0%
Residency Nil Rate Band (RNRB)*	£325,001 – £500,000	0%
Taxable	Excess over £325,000 or £500,000	40%

*RNRB is only applicable when passing a UK home that you live in and own on to a descendant. The RNRB is tapered if the value of the estate exceeds £2 million.

Business Investment and Overseas Workday Relief

If you put your foreign money into a private company, you won't be taxed when you bring the money to the UK. But, the company can't be on a stock exchange, and you can't benefit from it. If you sell the investment, you need to take the money out of the UK or invest it in another company within 45 days to avoid taxes.

If you're living in the UK but not originally from here, and you work outside the UK, you might get a tax break called Overseas Workday Relief (OWR). For the first three years, you only pay tax on money you earn outside the UK if you bring it to the UK. Without OWR, any money you earn while living in the UK, even from work outside, is usually taxed here, unless you only work outside the UK.

Life Insurance and Offshore Income

If you have a non-UK life insurance policy and move to the UK or already live here, get advice about how it applies to UK taxes. Taking money out of the policy or when it matures can lead to taxes at your income rate (20%, 40%, or 45%).

You can take out up to 5% of what you paid yearly without taxes and any unused allowance will carry over. But even if you keep the money outside the UK, UK tax rules apply to non-UK policies. Certain policies (like Personal Portfolio Bonds) might face a yearly tax if you can choose investments, at a minimum of 15% of the capital value. Profits from specific investments made outside the country might be taxed like regular income (up to 45%), not at the lower rate for capital gains (20%).

Tips for success

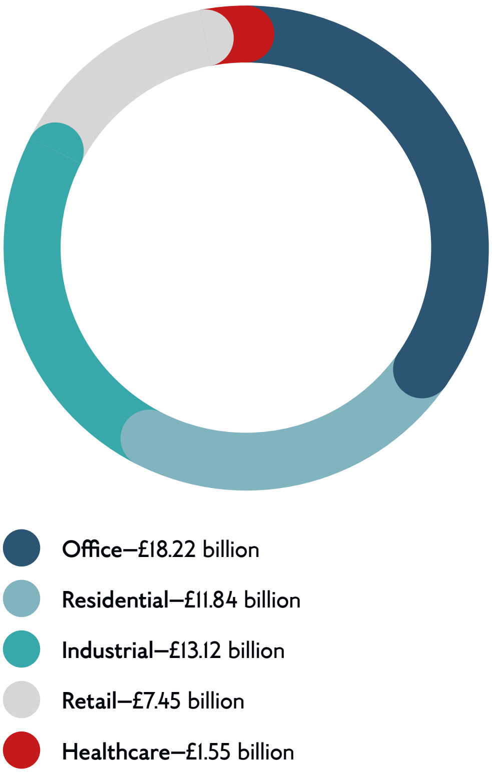
- The UK tax year runs from 6 April to 5 April. Take tax advice well in advance.
- Consider your immigration options and make sure you have the right visa.
- Be aware of any tax liabilities upon leaving your previous country and any emigration formalities.
- Do you need a UK bank account or keep your accounts outside the UK?
- Review any trusts, foundations or companies and the tax implications.
- Are you renting or buying a property? You need to consider funding and tax options.
- Review your business and employment arrangements.
- Arrange schools well in advance of September.
- Check your domicile and its implications.
- If you studied or have previously been a UK resident there may be tax or other hangovers to consider.

GUIDANCE FOR PROPERTY INVESTORS IN THE UK

The UK property market is renowned for delivering reliable returns on investment and lucrative development opportunities. In fact, average house prices in the UK have risen from £231,187 to £285,861 over the past five years – a significant increase of 24%.

Similar growth is forecasted over the next five years, which explains why so many overseas investors are turning their attention to UK property. Yet despite the potential for high returns, navigating the market can be a challenge for foreign buyers and there are a number of key considerations that must be taken into account before investing.

Foreign investment in UK property by sector (2022)



Source: Statista

Structures of owning property

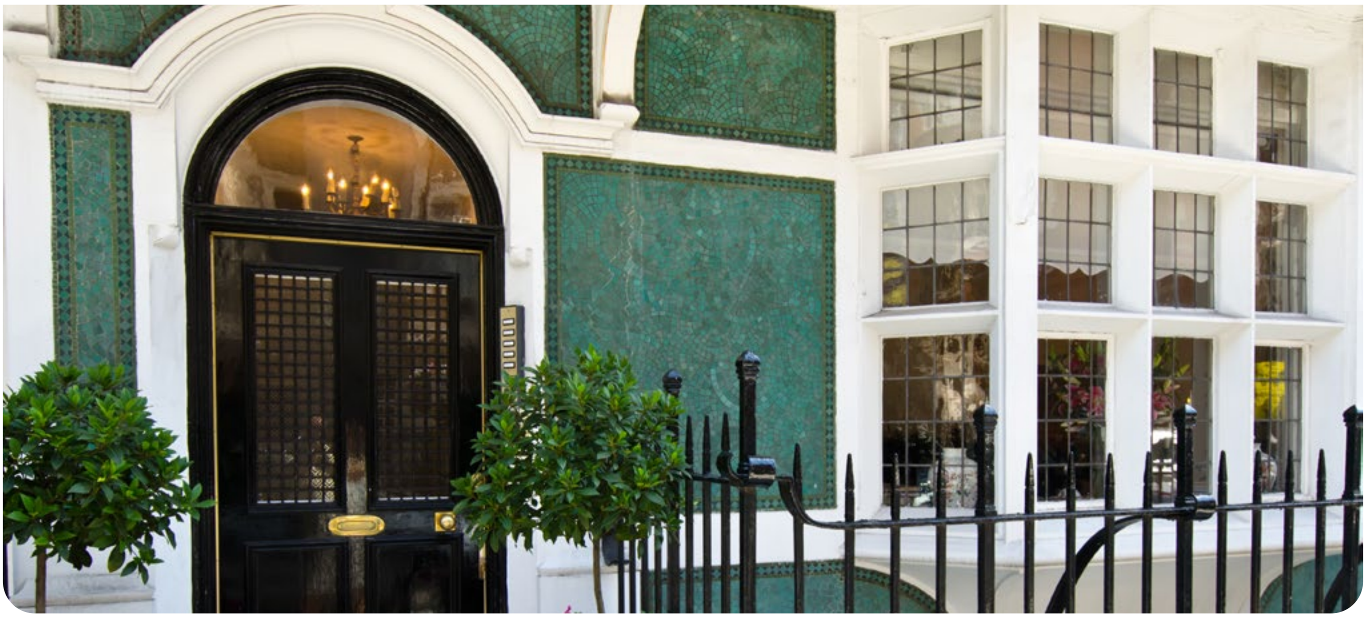
There is a plethora of ways in which you can own property in the UK. There is not one structure which is superior, each way has its own advantages and disadvantages. Finding the correct ownership structure depends entirely on you circumstances, and choosing the right one is crucial to organising your affairs in the UK efficiently.

Individual ownership

One of the simplest and most common types of property ownership in the UK is owning the property in your own name. Income tax will be applied to profits, but generally, this type of ownership comes with the least admin fees, with only an accountant's fee for your personal tax return being the main fee here. There is little tax planning to be done, as you are taxed on profits in the year they arise. However, one disadvantage to be aware of is the recent restriction on mortgage relief, relief is only given at the basic rate. You should also take into consideration the higher rates of Stamp Duty Land Tax for non-residents.

Ownership via UK Limited Company

Ownership by company is another common way that property portfolios are held. Holding properties in limited companies is generally better in terms of tax planning, as you can hold the profits inside the company until it is beneficial to pay dividends out. Ownership by property also adds a layer of anonymity, with the company rather than yourself appearing on the land registry. There is however a greater administrative burden as annual accounts must be submitted to Companies House, a corporation tax return as well as other documents annually as well as possibly the Annual Tax on Enveloped Dwellings if the



property is a high value residential property. You must also appear on Companies House, which is a publicly accessible register.

If planning on an extensive UK portfolio, it may be beneficial to have a company own each property, so that liability is shared. It is recommended to get professional advice on this.

Ownership via trust

Putting a property into a trust is another useful way of investing in property here in the UK. There are several types of trust that can be used, but one of the main benefits is in respect of IHT and estate planning.

Putting a property into a trust for the benefit of a beneficiary means that, providing you survive seven years, the property will be outside of your estate for UK IHT. This could potentially save 40% tax on the value of the property. The setup of the trust is crucial and if not done correctly can void the whole planning undertaken. There is however a degree of loss of control here as there is a separation of equitable and legal ownership following the settlement of the trust.

Property can also be held by an offshore trust. Offshore trusts are increasingly being subject to much anti-avoidance legislation introduced by the government.

Offshore trusts offer a degree of anonymity compared to a UK trust and non-domiciled individuals that are receiving benefit from a non-resident trust may be able to claim the remittance basis to their advantage provided the income is kept overseas.

Ownership via an offshore entity and Register of Overseas Entity

The acquisition of UK properties by offshore entities is perfectly legal and doesn't require investors to be based in the UK. However, last year the Government pledged to introduce an official Register of Overseas Entities with the main scope to increase transparency and powers to tackle financial crime by revealing the identities of beneficial owners of UK property.

All overseas entities owning UK property in England and Wales, which meet the Register of Overseas Entities criteria, must register with Companies House and provide details of their beneficial owners.

> **The acquisition of UK properties by offshore entities is perfectly legal and doesn't require investors to be based in the UK.**

The registration rules apply to overseas entities that acquired a registrable property in England and Wales after 1 January 1999 or will acquire it in the future.

- **A registrable property**, in this context, refers to a freehold estate in land, or a leasehold estate in land granted for a term of more than seven years from the date of grant.
- **An overseas entity**, in this context, is broadly defined to include foreign companies, partnerships and other legal entities which are legal persons governed by the law of a country or territory outside the UK.

> **Any overseas entity that is planning on acquiring UK property should think about registering early.**

An annual update must also be submitted to Companies House. Failure to comply is a criminal offence.

It is important that the legislation is considered carefully in relation to overseas entities and property transactions.

Overseas entities do not have to own an existing interest in UK property in order to register. Any overseas entity that is planning on acquiring UK property should think about registering early.

Trust Registration Service

There are various scenarios in which an overseas entity with a trust structure holding UK real estate may need to register with Companies House and submit to UK tax obligations, including:

- Direct ownership by a non-UK trust
- Ownership via an underlying company held by a non-UK trust
- Ownership via a nominee company on behalf of a non-UK trust

Trust structures holding UK real estate

Whether or not a trust structure falls within the scope of the UK Trust Registration Scheme will depend on whether an individual, entity or government body meets one or more conditions regarding share ownership, voting rights or exercise of control. For more information, visit our guide on the subject.

All non-UK express trusts with all non-UK trustees are required to register on the UK Trust Registration Service (TRS) if the trustees receive UK source income or hold UK assets or acquire an interest in UK land.

This, therefore, means that a non-UK express trust with all non-UK resident trustees who hold UK residential property through a non-UK company will not have to register on the TRS. However, foreign companies that hold, or wish to buy, land in England and Wales will be required to provide information on their beneficial ownership under the new Register of Overseas Entities proposal.

The most important item to note is that for non-UK express trusts, the acquisition of UK land by the trustees on or after 6 October 2020 triggers the requirement for registration regardless of whether there is a UK tax liability or not. If UK land was acquired before 6 October 2020 by a non-UK trust, and the trust is not subject to UK tax, then the mere purchase of UK land in itself would not trigger the requirement to register on the TRS.

Unlike UK trusts, to be treated as acquiring UK land, the trustees of non-UK trusts must acquire the land directly.

The new regulations are slightly complex and could result in many unsuspecting trustees falling foul of the rules unaware of their duty to register non-UK trusts or update the TRS with any changes.

Property rich companies

'Property rich' companies are liable for capital gains tax if:

- The company is "property rich" (i.e. if 75% or more of its value derives from UK property)
- The non-resident (and related parties) hold, or at some point in the previous two years have held, at least a 25% interest in the share capital of the company

The legislation is not confined to disposals of shares. In principle, disposals of other interests in property-rich companies will also give rise to a tax charge.

> **The legislation is not confined to disposals of shares. In principle, disposals of other interests in property-rich companies will also give rise to a tax charge.**

The Capital Gains Tax charge for non-residents selling shares in companies holding UK residential property is calculated using the following rules:

- For the purposes of the non-resident tax charge, gains will be calculated using the market value of such interests as of 5th April 2019. In other words, rebasing will be allowed and only those gains accruing after 5th April 2019 will be chargeable to UK tax.
- Non-resident companies will pay corporation tax at the applicable rate. This is currently 19%.
- Non-resident individuals and trustees will pay CGT at 10% or 20%, depending on whether they are basic rate taxpayers or higher rate taxpayers.

Where the disposer is an individual or trust, there will be a requirement to report the disposal to HMRC and pay any CGT that is due within 60 days of the disposal. Where the disposer is a company, and therefore subject to corporation tax, it will have to register with HMRC within 90 days of making its first disposal. Payment of tax is usually nine months and one day after the end of the accounting period.

Understanding UK taxation

Stamp Duty Land Tax (SDLT)

Stamp Duty is payable on the purchase of a property. Different rates will apply to commercial and residential properties and are calculated using a tiered basis.

Overseas investors pay an additional 2% surcharge on SDLT when buying residential property, which applies to both first and second homes.

Market price (£)	Basic SDLT rate	Higher SDLT rate	Non-Res Basic SDLT rate	Non-Rest Higher SDLT rate
Up to 250,000	0%	3%	2%	5%
250,001 – 925,000	5%	8%	7%	10%
925,001 – 1,500,000	10%	13%	12%	15%
Over 1,500,000	12%	15%	14%	17%

Income Tax

Rental income from UK property is subject to income tax in the UK. The rate of income tax will depend on the investor's individual circumstances.

Capital Gains Tax

When a UK property is sold, any capital gain is subject to CGT. The rate of which depends on the investor's individual circumstances. However, non-UK residents may be exempt from paying CGT if they have owned the property for at least 10 years.

It is also worth noting that 'Property rich' companies are liable for capital gains tax if:

- The company is "property rich" (i.e. if 75% or more of its value derives from UK property)
- The non-resident (and related parties) hold, or at some point in the previous two years have held, at least a 25% interest in the share capital of the company

To read more about property rich companies and the charges applied, see page 23.

Annual Tax on Enveloped Dwellings (ATED)

ATED is an annual tax payable mainly by companies that own UK residential property valued at over £500,000. The current charges range from £4,150 to £269,450 depending on the value of the property. There are some reliefs from the charge, as well as exemptions.

For example, companies can claim relief from the charge if the property is let to a third party on a commercial basis or used for employee accommodation, though in these cases returns must still be submitted. Businesses that own hotels for example, are exempt and do not have to submit a return at all.

> Overseas investors pay an additional 2% surcharge on SDLT when buying residential property, which applies to both first and second homes.

Property Value	Annual ATED Charge
£500,001 – £1,000,000	£4,150
£1,000,001 – £2,000,000	£8,450
£2,000,001 – £5,000,000	£28,650
£5,000,001 – £10,000,000	£67,050
£10,000,001 – £20,000,000	£134,550
£20,000,000 +	£269,450

The above ATED charges were for the 23/24 chargeable period. They are generally increased every year by September's CPI.

Value Added Tax (VAT)

Supplies of land and buildings are usually exempt, with no VAT recovery, but a business can opt to tax the supplies of land and/or commercial property. Opting to tax means that any VAT incurred in relation to the land can be recovered but VAT must be charged on any rent, lease or sale of the land.

There are two stages to opting to tax; deciding to opt and then notifying HMRC of that decision.

Non-Resident Landlord Scheme (NRLS)

The UK NRLS is a tax regime designed to regulate the taxation of rental income received by non-resident landlords. If you own property in the UK and earn rental income from it, but your usual place of abode is outside the UK, you are subject to the NRLS.

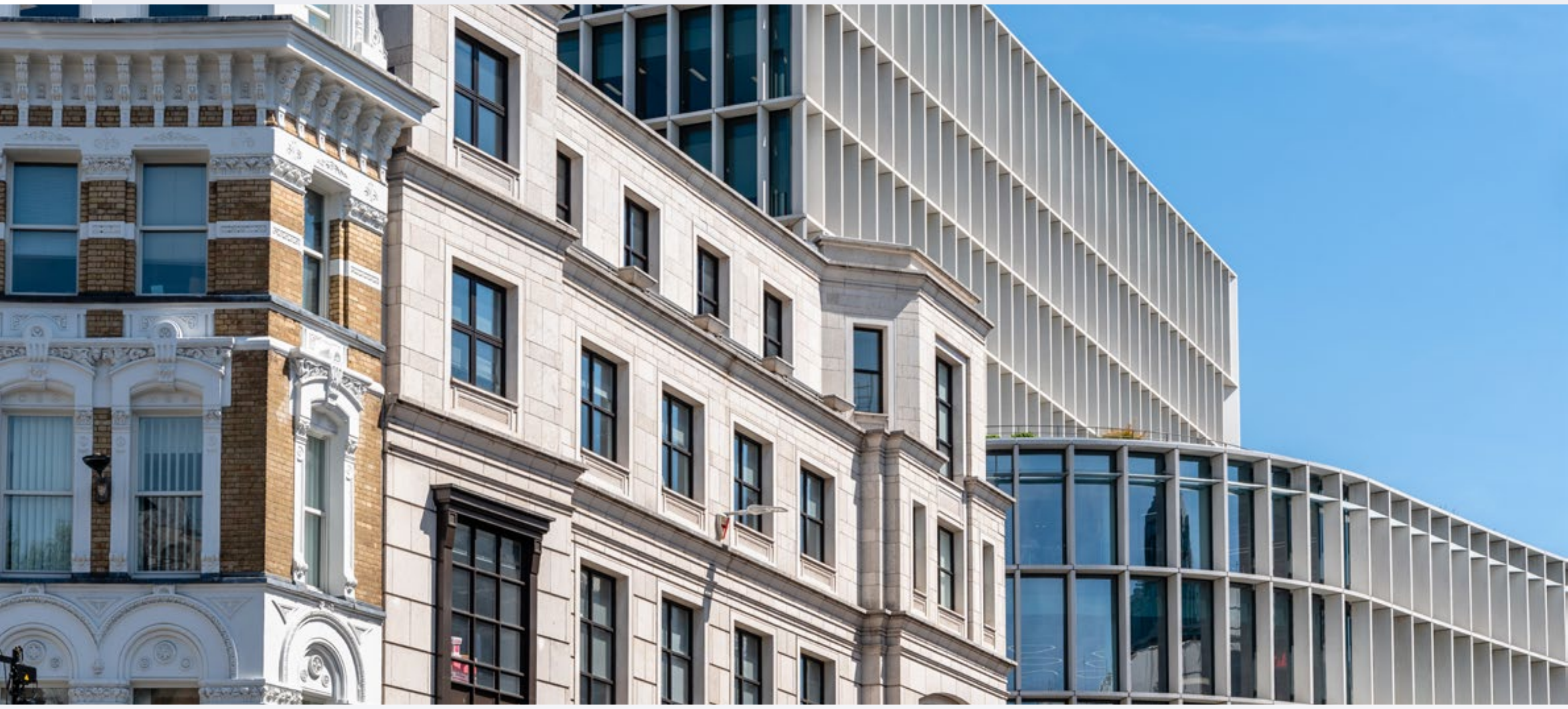
You are considered a non-resident landlord if:

- You are not resident in the UK for tax.
- You own residential property in the UK.
- You are receiving rent from the property.

The letting agents or the tenant is responsible for ensuring that the correct amount of tax is deducted from the rental income before it is paid to the landlord. Under the NRLS, the letting agent or the tenant is obliged to deduct basic rate income tax (currently 20%) from the rent before transferring it to the landlord.

Non-resident landlords are still required to file an annual Self-Assessment tax return or Corporation Tax return, even if they have no further UK income.

It is important that non-resident landlords are aware of the scheme in order to be compliant with UK tax regulations, optimise their rental income, and establish a successful and lawful property management business.



CONCLUSION

If you have made it all the way to the end, I hope you have found what we have written useful and informative when considering investing here in the UK.

Whilst on the face of it investing in the UK can be done somewhat easily and without too much thought, it is crucial that you do plan appropriately to avoid hefty tax charges and mistakes that can erode at your annual profits.

Whether you invest through companies, partnerships or just in your own name, at Gerald Edelman we have a number of experienced professionals ready to assist you in any aspect of investment.

To start your planning, get in contact and we will see what we can do.

Sonal Shah

PARTNER

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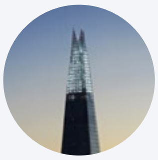

Make your move to the UK as smooth as possible

It pays to have an experienced professional on your side who has been through the process of inward investment in the UK many times before, so that they can guide you through the complexity of regulation and risk. Whatever your circumstances, there is likely a perfect solution to match your goals.

Get in touch with one of our friendly international tax experts today for a free consultation to talk through your situation and get a clearer idea of the best options available to you.

CONTACT US

TESTIMONIALS

"We needed specialist advice...

...we got to a point where we knew we needed specialist advice. Our initial draft plans on how to operate the Dutch subsidiary needed to change. Sonal's considered, balanced advice ensured that we were not only covered in areas we hadn't accounted for, but we were also able to drive change in our long-term approach. We are now confident that we are setting up the Dutch subsidiary effectively and efficiently."

Rob Lunn

Chief Product Officer, Fennech

"The collaboration with Gerald Edelman was excellent...

... on 3 November, the closing and the successful completion of the transaction took place. The collaboration with Gerald Edelman was excellent and allowed the closing of the acquisition transaction."

Guido Sazbon

Partner, Spada Partners (XLNC member firm)

"We're happy to have such trusted advisors...

The first-year audit of IDnow UK is complete, with the relationships between us and our advisors at Gerald Edelman set up in an efficient working structure. We're happy to have such trusted advisors on our side for all the developments that are to come in the future."

Barbara Kaindl

Head of Accounting, IDnow

"Provided excellent advice and support...

I have received advice and ongoing tax support from the international tax team for many years. Sonal and her team have demonstrated a thorough understanding of the UK tax system and have provided excellent advice and support to my wife and I during our relocation to the UK. The service has been well tailored to our needs, efficient and responsive, thereby providing peace of mind. I would highly recommend the international tax team, who have demonstrated a broad range of capabilities."

Arnold Urson

XLNC
FOUNDING MEMBER

Gerald Edelman is a founding member of XLNC, an association of independent accounting, law and management consulting practices from across the globe.

Through XLNC, we can connect you to over 100 professional services firms who are each regarded as leading practices in their respective countries. These practices specialise in providing a range of services including legal, fiduciary and strategy, to supplement the services already available to you at Gerald Edelman.

XLNC's locations are spread across Europe, USA, Canada, South America, Asia, the Middle East and Australia so any plans for expansion are well catered for. This gives us a truly global reach and enables us to refer clients to a network of professionals in any of these locations.

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