

What are the compliance and filing obligations of the new entity?

Depending on the nature of the entity and its size, the entity may have to file financial statements and tax returns overseas. It is important to understand these obligations as failure to make the required payments and filings can lead to financial penalties for your entity.

Will any profits extracted to the UK from the subsidiary be subject to withholding taxes?

Depending on the country where the subsidiary is created, any dividends may be subject to a withholding tax charge when paid to the UK company, and this can lead to tax cash leakage depending on the availability of double tax reliefs in the UK. This may also carry additional reporting requirements.

Should the new entity be funded by debt or equity?

From a tax perspective, there are significant differences between each of these methods and their implications, both overseas and in the UK, of repaying these funds via interest or dividends. If using debt, have you considered the rate of interest to be applied and whether it represents a fair market value? If using equity, you could have the opportunity to implement share option plans to help attract, motivate and retain key employees.

Are there transfer pricing implications on any intra group transactions?

While the UK does have a transfer pricing exemption for small and medium enterprises, many countries do not. It is therefore vital to understand what these requirements may be before the new entity is created.

How will the overseas subsidiary impact the existing UK company's accounting and tax position?

Expanding the group to include a subsidiary company could change the timing of when corporation tax payments are due in the UK (potentially moving from annual to quarterly payments). Additional overseas profits may also impact the rate of UK corporation tax suffered from 1 April 2023, when a change to corporation tax rates comes into effect.

Will the subsidiary have to pay tax in the UK?

Corporate residency is a crucial but a commonly overlooked area of international tax which is vitally important to overseas expansion. A subsidiary with a UK parent company must be carefully managed to ensure it does not become a UK tax resident, as this may mean the entity has filing obligations and tax to pay both in the UK and overseas.