Grant Thornton

An instinct for growth™

2012/2013

A guide to business relocation in Europe

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Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. Over 31,000 Grant Thornton people, across 100 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.

Introduction

Many companies from large multinationals to entrepreneurial businesses are choosing to relocate part or all of their operations to new territories. There are a number of reasons why commercially a group may consider relocating part of their operations, but it is also important to understand the tax consequences.

Grant Thornton member firms around the world have significant experience in advising clients on how their businesses can benefit from relocation. The highest profile cases involve full corporate migrations or inversions – the head office and holding company structure transferring to a new jurisdiction. However the options are numerous and the right answer may be much more simple, from setting up a regional hub to offshoring support services, or setting up an offshore intellectual property (IP) management vehicle.

As governments seek to attract successful, entrepreneurial businesses through the introduction of favourable tax and legal regimes the level of business relocations is likely to intensify in coming years.

Our guide outlines what type of activity is commonly relocated and the benefits of doing so and it profiles key locations within Europe which are popular destinations for business relocation. We explain the reasons for their popularity and summarise key commercial and tax factors to be taken into account when relocating.

The key to successful business relocation is early planning, working to achieve commercial objectives and careful execution.

We hope you will find this guide useful in assessing whether business relocation is right for you. If you would like to discuss the next steps please contact your own Grant Thornton adviser or one of the Grant Thornton contacts listed on page 19.

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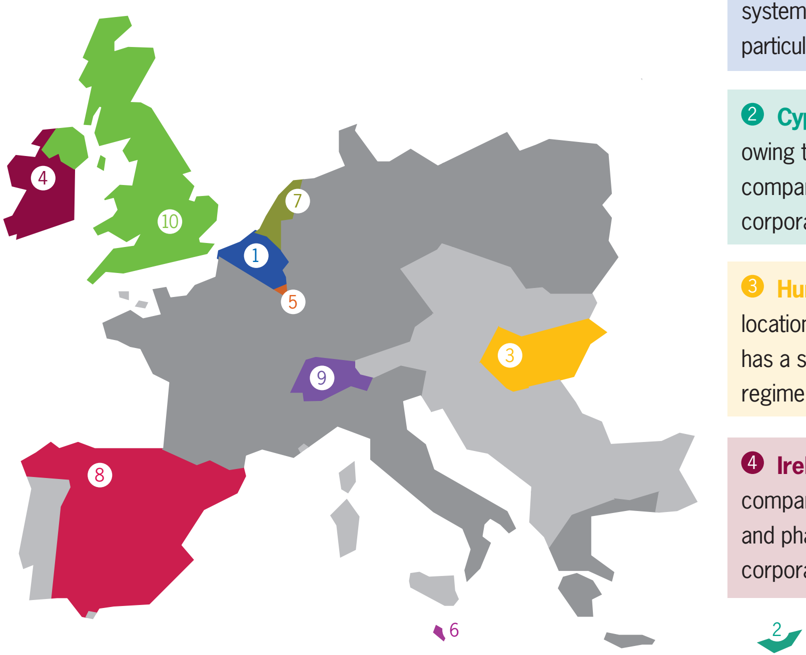
Key country summary



10 key European jurisdictions

1 **Belgium** – the commercial benefits of being located at the heart of Europe, a good IP regime for patents and a very attractive financing system (with notional interest deductions) means it is often used, particularly as an IP holding company location.

2 **Cyprus** – widely used for investment into Russia and Central Europe owing to a strong treaty network, it is increasingly used for service companies, including the financial services sector, attracted by a 10% corporate tax rate, simple regime, and relatively low cost.

3 **Hungary** – a relatively new holding company location destination, its location is ideal for accessing other Eastern European countries. It also has a straight forward tax system, a low overall tax rate and a good IP regime which can result in such income being taxed at 5%.

4 **Ireland** – Ireland is a popular location for holding and IP holding companies, particularly with a wealth of skilled workers in the technology and pharmaceutical sectors. It also has a flexible tax system, low corporate tax rates of 12.5% for active trades, and a good IP regime.

5 **Luxembourg** – pre-eminent within the finance sector, it is a common holding company location and is often used as a treasury/financing location. Advance agreements with the tax authorities are possible whereby Luxembourg only taxes a small spread on financing flows.

6 **Malta** – a relatively low cost of living combined with a good quality workforce make this a popular jurisdiction for service companies. If structured correctly, corporate tax rates of less than 5% are achievable.

7 **The Netherlands** – once widely regarded as the holding location of choice, its regime is perhaps not as competitive as a decade ago. With an excellent treaty network and a flexible tax system, it still remains popular as a holding company location, and is widely used by service, trading and logistics groups.

8 **Spain** – not widely recognised as a holding company location but its strong treaty network with Latin America means that it is a very good holding company location to access these markets. Its attractive R&D credits and IP regime can also result in a low effective tax rate.

9 **Switzerland** – with access to a sophisticated workforce, it is widely used as an entrepreneurial hub, especially in the food and drink, pharmaceutical and financial services sectors. Although expensive, with a complex tax regime, overall corporate taxes can be low.

10 **UK** – whilst the complexity of the tax regime is a deterrent for many, US multinationals in particular continue to use the UK as a holding company structure – this is driven by commercial factors, particularly relative ease of set-up, language factors and communication links.

These 10 key European jurisdictions are widely used for holding companies and IP holding companies. The choice of location is very much driven by the commercial requirements of the business. Whilst it can be possible to relocate without a strong commercial driver, the best results are typically where commercial needs, tax and legal benefits go hand in hand. The table below summarises principal tax factors for the 10 key European jurisdictions.

	Belgium	Cyprus	Hungary	Ireland	Luxembourg	Malta	Netherlands	Spain	Switzerland	UK
EU member	yes	yes	yes	yes	yes	yes	yes	yes	no	yes
Tax rates										
Headline corporation tax rate	33.99%	10%	10-19%	12.5%	28.8%	35%	20-25%	30%	12-25%	24%
Income taxes	up to 50%	up to 35%	up to 27%	up to 41%	40.56%	up to 35%	up to 52%	up to 56%	up to 42%	up to 50%
Standard VAT rate	21%	17%	27%	23%	15%	18%	21%	21%	8%	20%
Holding company regime										
Dividend exemption (subject to conditions)	yes	yes	yes	no – but credit	yes	yes	yes	yes	yes	yes
Capital gain exemption (subject to conditions)	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
CFC rules	no	no	yes	no	no	no	no	yes	no	yes
Other incentives	notional interest deduction	profit from trading in 'titles' is exempt	–	–	tax rulings can be negotiated to optimise effective tax rate	effective tax rate of 0-10% can be obtained (subject to exemptions)	–	no debt:equity restrictions as from March 2012 (but limitation on interest deduction)	effective tax rate of 7-12% for holding companies	–
Transfer pricing rules	yes	yes	yes	limited	limited	no	yes	yes	yes	yes
Capital/stamp duty on shares	no	yes – only on initial issuance of shares (0.6%)	no – unless they are shares in companies holding Hungarian real estate	yes – only on transfer of shares (1%)	no – however 0.5% annual net wealth tax on non-qualifying assets	yes – only on transfer of shares (2%) unless > 90% of business is derived from outside Malta	no	no	yes – on initial share issuance (1%) and an annual capital tax on equity value (0.001%-0.01%)	yes – only on transfer of shares (0.5%)
Number of double tax treaties	90+	46+	65+	65+	60+	55+	110+	80+	100+	120+

	Belgium	Cyprus	Hungary	Ireland	Luxembourg	Malta	Netherlands	Spain	Switzerland	UK
IP regime										
IP tax rate	6.8% (effective)	10% (2% effective)	5-9% (5% effective)	12.5% (2.5% effective)	5.76% (effective)	0-10%	5% / 25%	15-30%	9-11% (effective)	24%
IP regime	yes – applies to patents owned and developed by company	yes – applies to most intangibles	yes – applies to patents, patent rights, trademarks and copyright	yes – applies to most intangibles	yes – applies to most registered intangibles	yes – applies to registered patents (0%), active IP (5%), passive IP income (10%)	yes – applies to IP of a technical nature (5%) and to goodwill and trademarks (25%)	yes – applies to registered intangibles	yes – applies to all intangibles	yes – applies to all post 2002 intangibles
Capital gains on IP	capital gains taxed at normal rate	80% exemption on capital gain on disposal	exemption on registered IP held for at least a year	capital gain on disposal taxed at 30% but can be deferred	80% exemption on capital gain on disposal	capital gain on disposal taxed at 5%	capital gain on disposal of qualifying assets effectively taxed at 5%	capital gain on IP disposal at a rate of 15%-30%	capital gain on IP disposal taxed at 9-25%	capital gain on disposal taxed at 24% but can be deferred
IP amortisation deduction	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Domestic witholding tax (WHT) rates										
WHT on dividends	25%	0%	0/16%	0/ 20%	15%	0%	15% 0% for cooperatives	0% (for ETVEs)	35%	0%
WHT on interest	25%	0%	0%	0/20%	0%	0%	0%	21%	0%	20%
WHT on royalties	25%	5-10%	0%	0/20%	0%	0%	0%	24.75%	0%	20%

General notes:
1. Information used in this table was collated in July 2012
2. Withholding tax rates may be reduced when payments made within the EU or under relevant treaties
3. Further details are included in the relevant key country profiles from page 20

Key:
WHT = withholding tax
CFC = controlled foreign company
ETVE = Spanish holding company

Relocation options

What is business relocation?

Whilst most people instantly think of full corporate migrations for business relocations, there are a number of much simpler options which can also achieve excellent efficiencies and cost savings.

Determining the right structure and location for a business requires assessing numerous competing factors and will be individual to each group, but some common examples are:

Full migration

This type of relocation has been highlighted by some high profile migrations and can be either a relocation of headquarters or holding company or both. A migration of the holding company typically involves an inversion, whereby a new holding company is set up above the existing group holding structure. However, it can sometimes be achieved by migrating the management and control of a holding company to a different jurisdiction.

Whilst the benefits can be significant, for example, achieving a reduction in the overall effective tax rate or moving to a country with a simpler tax and legal framework, there can be issues in terms of exit costs and there needs to be a strong appetite for change to make this relocation work.

Use of IP holding companies and regional hubs

Increasing use is being made of IP holding regimes by many international groups. Such companies are responsible for the ongoing development, protection and exploitation of IP or development of regional business.

Given the need for IP protection and the significant income it can generate, groups are considering the best place to locate these assets to maximise protection and minimise taxes.

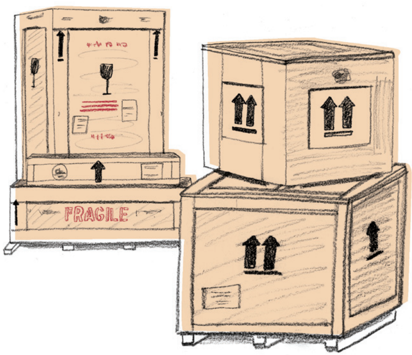
Whilst such assets are physically easy to relocate, this type of restructuring often has a high cost of relocation.

Offshoring

There can be significant cost savings through offshoring. In its simplest form offshoring could be the relocation of a support function overseas. Increasingly, this has been extended to more value-add functions including research and development (R&D) centres and treasury companies. For the former, such centres may be located where there is a wealth of technical staff and favourable R&D tax regimes.

Changing the risk model

Where it is not appropriate to physically relocate certain functions, then an alternative may be to operate through a commissionaire, franchising or licence model. Under such an arrangement, the risks borne by the local distribution or manufacturing entity may be substantially reduced. This in turn can limit the profits attributable to these entities, with increased profits being generated by the entrepreneur company. This involves limited physical disruption to the business.



How can relocation add value?

There are significant potential benefits to relocating abroad – access to markets, simplified compliance and tax savings are cited as key reasons. The popularity of business relocations is driven by a series of global economic factors, creating ‘a perfect storm’ in business restructuring:

- **globalisation:** the disparity in growth rates between emerging markets and mature economies is accelerating the pace of globalisation, as companies seek to access capital, goods or markets in different regions of the world. There is also a growing pool of internationally mobile employees willing to relocate for these opportunities
- **economic downturn:** pressure on businesses to reduce costs is immense as they continue to respond to the global recession. There can be significant operational, administrative and tax savings arising from centralising functions and relocating them offshore to an appropriate location
- **increased compliance burdens:** other regimes, particularly in the G20 economies, are introducing complex compliance systems to control behaviour and discourage loss of tax revenue offshore. This is creating a huge compliance burden for groups and arguably is accelerating the migration of businesses away from those jurisdictions
- **competitive advantage:** as more corporate groups take advantage of the opportunities arising from relocation, it is important to remain ahead of the game in terms of maximising value by reducing costs, thereby keeping a competitive advantage
- **tax incentivisation:** tax is increasingly used as a lever by various governments to attract inward investment, resulting in low tax rates and some very generous tax incentives, particularly around IP management and other high-value functions. Significant tax savings can be obtained by relocating activity and assets into these jurisdictions.

What activities can be relocated?

A group's typical supply chain has three key aspects and examples of functions and ways to relocate these are set out below:

	Functions	Examples		Ways to relocate
1	Support	Customer support	Back office support	• Offshoring • Treasury companies
2	Business	Research & development	Manufacturing & sales	• Centralisation • Changes to risk model • Research centres of excellence
3	Value-add	IP management	Executive decision making	• IP holding companies • Migration of holding company

1 Support functions

Offshoring:

Relocation of routine functions such as support services is common and is often relatively straightforward. Typically the moves are driven by operational savings with and low costs. An example of this is Malta, a popular offshoring location.

Treasury companies:

Treasury companies have widely been used in group structures to manage and pool the cash facilities for the group to maximise the return on surplus cash and minimise the expense on overall group debt. Careful consideration should be given to the preferred location which will be driven by commercial factors, but also by the favourable tax treatment on the interest. WHT costs should be understood when choosing a location as these can give rise to significant tax leakage on interest flows if not managed properly.

2 Business functions

Centralisation:

Typically the location of volume-adding functions is driven by commercial factors such as the location of suppliers, customers and a skilled workforce. However there may still be opportunities to centralise these in a regional hub and while such structures will be commercially driven, tax savings can be significant.

Change to the risk model:

Where it is not commercially viable to relocate volume-adding functions, these can be restructured using a different model such as franchising and licencing.

Such a group restructure could involve a fully-fledged sales company becoming a limited risk distributor, transferring key risks (such as stock obsolescence risks, bad debts and foreign exchange) to another company. Alternatively, it could operate as a sales commission agent, not actually entering into sales contracts, rather receiving a commission for soliciting sales on behalf of the principal.

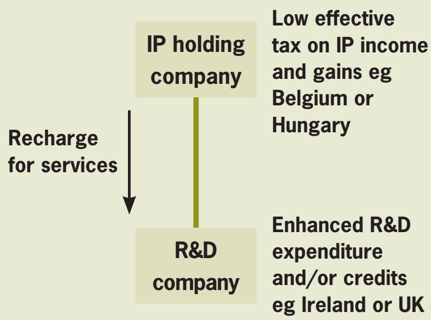
This can be an effective way of transferring profit-generation from the sales or manufacturing entity to the principal with minimal physical disruption to the business as few staff need to relocate.

Research centres of excellence:

The tax benefits of establishing a global R&D centre can be extensive given the various grants and tax incentives available in different jurisdictions. It is important to ensure these incentives are taken into consideration when undertaking cost-benefit analysis on the choice of location.

When considering the best structure for an R&D centre of excellence, it is important to understand whether the centre will undertake research on its own behalf, effectively owning the associated IP, or whether it will perform contract R&D on behalf of the IP owner. This is key to deciding where the IP should be located.

With planning, it may be possible for a contract R&D company to qualify for R&D tax credits in one country, and the IP owner to benefit from a favourable tax rate on the income generated from the IP in a second jurisdiction.



3 **Value-add functions**

IP holding companies:

By locating the IP and the associated active management in one company, its value may be maximised. The income generated from such activity will be either royalties, or if the IP holding company is included in the supply chain, through the mark-up on the pricing of goods or services.

The profits attributed to IP can be very significant, and there are some very favourable regimes – for example Ireland allows a deduction for amortisation of IP transferred from group companies, based on the market value (rather than book value).

Migration of holding company:

This typically entails setting up a new holding company above the existing group holding company and is known as an inversion.

There are a number of reasons why a company may migrate, including:

- commercial opportunities to re-focus the business on a new territory or region, more closely aligned with customers, suppliers and/or workforce
- opportunities to exit from a complex legal/tax compliance and reporting regime of the existing country of residence, and adopt a more straightforward regime in a territory such as Hungary or Malta
- potential to side-step tax anti-avoidance provisions in the previous parent jurisdiction, which can limit flexibility
- ability to generate profits in the medium-term in a favourable location.

Migration has a very significant impact on the business, with the key decision-makers either relocating offshore or regularly travelling to the overseas location.

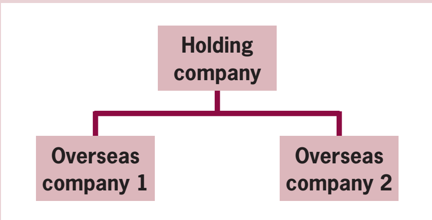
It can also impact the shareholders as some jurisdictions have high WHT rates on payment of dividends to non-resident shareholders. If treaty protection is not available, complex structures such as dividend access schemes, may be required to manage WHT costs to the ultimate shareholders.

There needs to be an appetite for change at board level and a good commercial reason for restructures of this nature and an awareness of the potential negative media exposure.

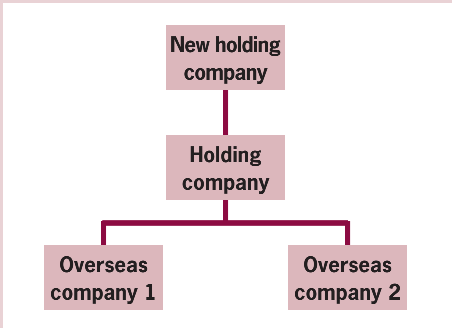
An inversion

The key steps to an inversion are as follows:

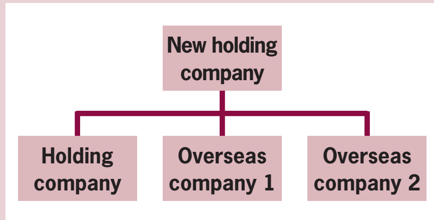
Existing structure



Set up a new overall holding company in a favourable jurisdiction by way of share for share exchange by the existing shareholders

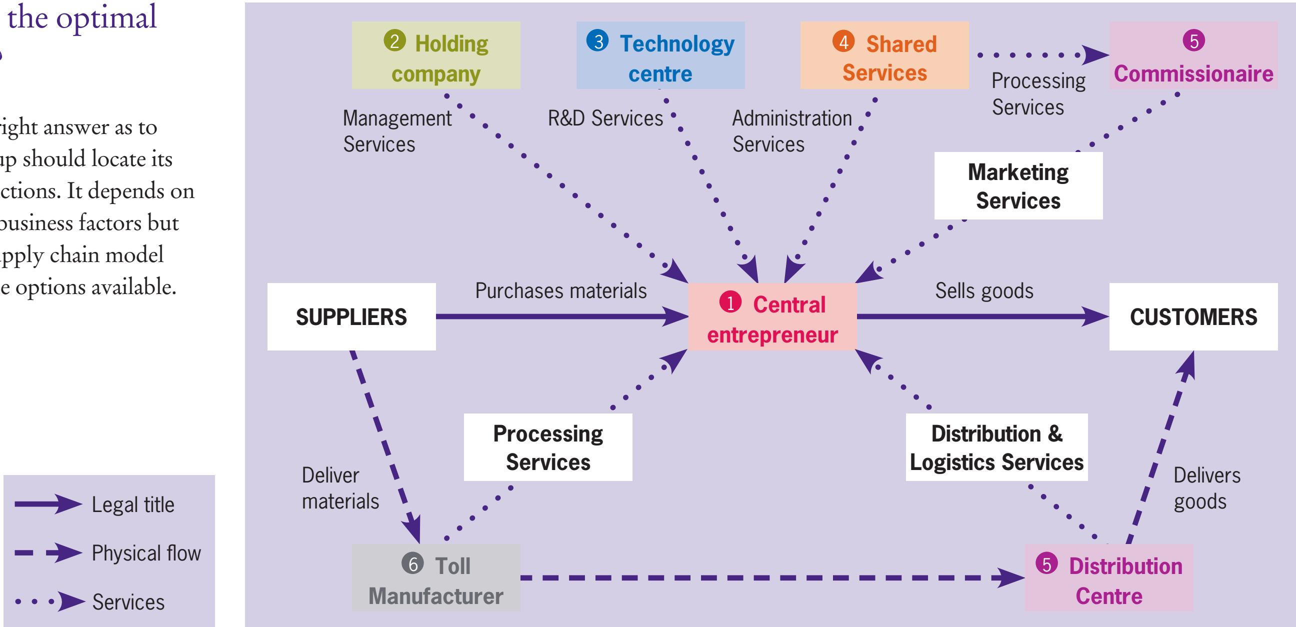


Transfer subsidiary companies under the new holding company



Where is the optimal location?

There is no right answer as to where a group should locate its different functions. It depends on a myriad of business factors but the classic supply chain model highlights the options available.



❶ The **central entrepreneur** is the hub of the structure and therefore its location will be key. As it will often also hold the group's intangibles, identifying a good IP tax regime can significantly improve the group's effective tax rate.

Popular jurisdictions include Ireland and Switzerland – the group can benefit from excellent commercial regimes, access to a sophisticated labour force and with careful structuring, effective tax rates of 12.5% (Ireland) and 9-11% (Switzerland).

❷ The choice of **holding company** location is determined by shareholder considerations as well as company law. Popular locations are Luxembourg, Switzerland, Belgium, Ireland and increasingly Hungary.

❸ A **technology centre** will be responsible for R&D, and therefore its location will be influenced by a generous R&D tax regime in the form of enhanced tax relief and repayments as well as access to appropriate staff. France has an excellent R&D regime, as does the UK.

❹ **Shared services** are often relocated to overseas jurisdictions. Call centres for example are usually located in low cost environments with popular locations in Europe including Malta and Cyprus.

❺ Operations in high tax jurisdictions which cannot be moved – for example sales and **distribution**, which are driven by customer location, can be structured as a **commissionaire** or a limited risk distributor. This will limit the risk and therefore the level of profits associated with the function.

❻ **Toll or contract manufacturing** is ideally located where there is a low cost base – East European states and increasingly North Africa are widely used.

What is the impact of relocation?

It is important to understand the potential impact any relocation has on the operational, legal and tax affairs of the business. These are generally manageable but careful planning is necessary to ensure groups are aware of all the costs of the relocation.

Operational issues

Customers, suppliers and markets

Depending on the type of business, the location of suppliers and/or customers will be key to the decision on location. Proximity to these key stakeholders is often a critical factor in driving relocations.

Substance

Whenever activity is being relocated, there will need to be real 'substance' in the chosen location. The exact level of substance depends on the functions undertaken and the assets and the jurisdiction they are to be relocated to. While this may be obvious for volume-adding functions such as manufacturing, holding and IP holding companies will need to have real substance in them with appropriate levels of local management with the relevant expertise to manage the assets. Failure to introduce sufficient substance is likely to give rise to tax concerns as set out further below.

People

Groups must consider how any relocated function will be staffed. This may involve relocating staff or recruiting locally. For existing staff, account must be taken of their desire to move, in addition to their ability to move in terms of work permits (where such locations are outside of the EU). If existing staff do not want to move, there will need to be a suitable workforce available locally. Both options will have associated costs.

Reputation

Some businesses are sensitive to market perception. Any restructuring which could result in headline news in the media of a move to a new jurisdiction could detrimentally impact the profitability of those businesses. While high profile movers have paved the way, when reviewing the strategy of the business all key players in the business, from CEO to corporate affairs need to understand the implications of a move and need to be clear of their stance.

Legal Issues

Employment law

It is important to recognise when moving staff to an overseas location, or indeed hiring new staff, that the employment laws in different jurisdictions are unlikely to be the same. Even within the EU, there can be working hour restrictions, and employees may have more rights in one country compared to another. In addition, works councils in certain member states can be powerful bodies influencing business decisions.

Contract renegotiation

When moving business operations overseas, it may be necessary to renegotiate contracts with current suppliers and customers. The appropriate law governing these contracts will need to be considered and, where different, existing contracts will need to be agreed with customers and suppliers.

Company law

Company law factors must be taken into consideration when setting up a new entity including the different reporting requirements. The full migration of listed entities will give rise to numerous legal and listing requirements.

Tax issues

Residency and CFC rules

Many tax authorities levy tax not just on companies incorporated in the territory in question, but also where companies are managed there. It is therefore important that companies have an appropriate level of substance and management locally, otherwise additional tax costs could arise under the tax residence and CFC rules.

Transfer pricing

Increasing numbers of jurisdictions have introduced transfer pricing rules to ensure that intra-group pricing (of goods, services, interest and royalties) is deemed to take place at arm's length. The aim is to ensure that profits are not artificially diverted to another territory through manipulation of prices.

As a result, the level of profits which can be generated in a territory is typically driven by the level of substance in that territory – both in terms of assets held, functions performed, and risks borne. Careful supply chain planning is therefore essential to maximise the benefit from the chosen structure.

Exit charges

As part of any restructuring, the exit charges in moving a function or asset out of a jurisdiction need to be included in relocation costs. For most countries, there will, prima facie, be a tax charge on exit. However, with planning it is often possible to minimise the charge arising on exit or defer such charge.

If moving within the EU there is also the argument that such charges are discriminatory and contrary to EU law and in particular the Freedom of Establishment and Free Movement of Capital.

Indirect taxes

Thought needs to be given where any restructuring alters the flow of goods, services or other payments. For example royalty, interest and dividend flows need to be modelled to ensure that the resultant structure is not tax inefficient by virtue of non-recoverable WHT. Where there is a physical movement of goods or services, indirect tax cost leakage (particularly sales taxes and duties) will need to be built into the cost of the restructuring.

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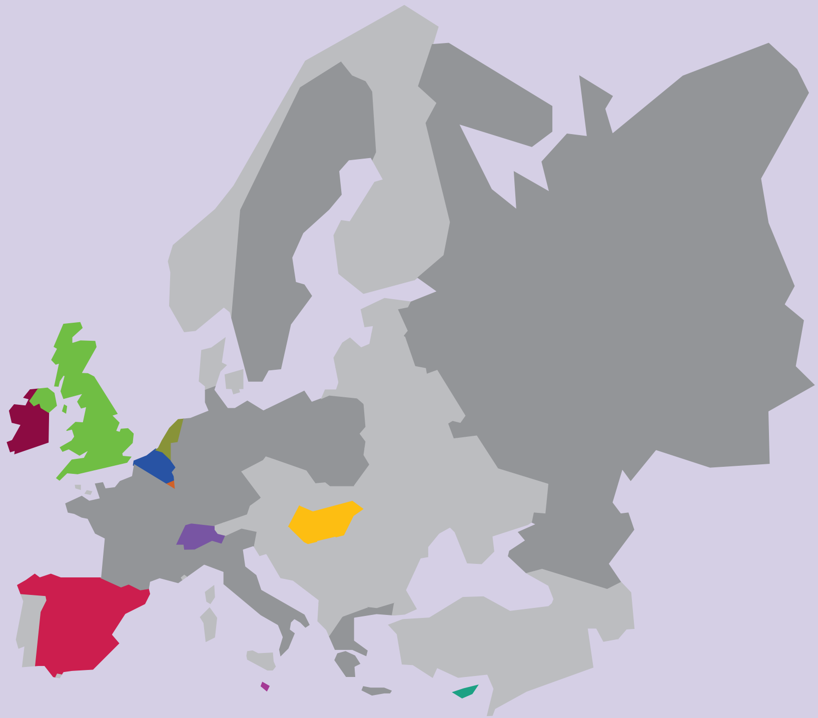
Key country profiles

This section provides an overview of the commercial and legal benefits of the jurisdiction, the holding company and IP holding regimes, as well as expatriate costs and planning opportunities for the 10 key holding company locations.



Belgium

Belgium key facts

Investment climate

- local currency Euro (€)
- stable economic and political environment
- skilled and semi skilled workforce, including technical and professional personnel
- rather strict labour laws.

Quality of living

- good infrastructure especially transport
- high standard of education including international schooling available for expatriate families
- excellent healthcare.

Belgium is recognised as a holding company location primarily due to commercial reasons. Its high headline corporate tax rate does not lend itself easily to a favourable holding company location, although a participation exemption in terms of dividends and capital gains and the absence of any CFC rules offers enough tax incentives for groups to headquarter here.

It is one of the best locations for industry and logistics as a prominent gateway to the European market. A large part of Belgium's success in international trade is due to its excellent infrastructure which allows it to leverage off its strategic location.

Trade in intermediate goods, destined for final production in other countries, accounts for nearly 45% of gross domestic product. Belgium's main industries include food, automotive, pharmaceuticals and logistics.

Belgium is regarded as having a high standard of living and, while it is expensive, it is not as expensive as some of its EU neighbours relative to the standard of living.

Belgium does have a very favourable IP regime, especially for patent income which is taxed at a rate of 6.8% and can often be lower depending on the level of deductions available.

Holding company

Corporate taxation

The effective headline rate of corporate tax in Belgium is 33.99%, one of the highest in the EU.

Notional interest deduction rules give companies a deduction against profits for the cost of equity (for tax year 2013 this is 3% of equity; 3.5% for smaller entities). It is therefore possible to benefit from significantly reduced corporate tax rates, with some relatively simple structuring.

Stamp taxes and other capital duties

There is no capital duty or stamp duty applicable in Belgium.

Exemption from Belgian corporate tax

A 95% dividend exemption is generally available on dividends from shareholdings of at least 10% (or €2.5 million) where they have been held (or are intended to be held) for at least one year.

Capital gains on the disposal of shares are exempt with small and medium-sized companies (if shares were held for an uninterrupted period of one year) provided that the investee company is not resident in a country with a considerably more favourable tax regime than Belgium (in practise this is taken as an effective tax rate of less than 15%). Under the conditions mentioned above, large companies only pay 0,4% income tax.

Anti avoidance legislation

Belgium has transfer pricing rules (based on OECD principles) which require related party transactions to be conducted at arm's length. In addition, there are interest deductibility restrictions on interest payable to 'low tax' jurisdictions (ie <15% effective tax rate) and on intra-group loans to the extent that the total amount of these intra-group loans exceeds five times the net equity of the company. Belgium does not have any CFC (or equivalent) legislation. However, the availability of the capital gain exemption may be restricted if the investee company is in a 'low tax' jurisdiction (as detailed above).

It is possible for companies to obtain advanced rulings from the tax authorities on the treatment of complex tax matters. These are not compulsory.

Belgium's location and excellent IP regime result in it being an attractive location for holding companies, including (bio)pharmaceutical and high tech groups.

Examples include GlaxoSmithKline Biologicals, ThromboGenics, UCB, Godiva Chocolatier and Anheuser-Busch InBev (Becks and Stella).

Withholding taxes (WHT)

The domestic rate of WHT applied on dividends is 25% (as of 1 January 2013) when certain conditions are met. There is no WHT on dividends paid to residents of EU countries (where holding requirements are met) or countries with which Belgium has a double tax agreement (for shareholdings of at least 10%) and there are significantly reduced rates in many of the double tax agreements.

The domestic rate of WHT applied on interest to non residents is 25%. An exemption is available for interest payable to beneficiaries of EU countries (where holding requirements are met) and reduced rates of WHT apply on interest to beneficiaries of most treaty countries.

The domestic rate of WHT applied on royalty payments to non residents is 25%. As with dividends and interest, an exemption is available for payments to EU countries (where holding requirements are met) and reduced rates of WHT apply on royalties to most treaty countries.

VAT

The standard rate of VAT is 21%. A reduced rate of 12% applies for medicines, margarine, tubes, TV cable or social housing, whilst a reduced rate of 6% is available for all types of renovation work as well as basic necessities such as food, non-alcoholic beverages, transport and pharmaceuticals. Some goods are exempt from VAT including newspapers and magazines.

Double tax agreements

Belgium has more than 90 agreements in effect.

Foreign shareholders

There is no Belgian tax payable by foreign shareholders on the disposal of shares in a Belgian company.

IP regime

Legal

Belgium offers a high level of legal protection and recognition, broadly following EU law, for patents, trademarks, copyrights and industrial design and models.

IP rules

The IP regime includes patents that are owned and that have been fully or partly developed by the company.

Under the regime, there is an 80% patent income deduction on qualifying gross patent income resulting in an effective tax rate of 6.8% before other deductions. In addition, amortisation is deductible over the useful economic life and this deduction, coupled with the notional interest deduction, can result in an effective tax rate of zero.

Income and gains on IP outside the regime (including acquired patents and knowhow and brands) are subject to tax at the normal headline rate of tax of 33.99%.

R&D rules

Tax incentives are available for R&D related activity in the form of either an enhanced investment deduction of 14.5% (for tax year 2014) on environmental investments for research and development, or a tax credit of 14.5% of the value of qualifying expenditure (for tax year 2014). It is also possible for companies to retain 75% of researchers payroll tax in respect of qualifying activities.

Expatriate issues

Income tax

Individuals are taxed on all remuneration (including benefits in kind) for duties performed in Belgium, on a progressive scale of income tax between 25% and 50% depending on level of income. Local taxes are also payable.

There are relatively generous deductions available including child care, mortgage payments and related insurance premiums. Tax credits are also available for pension contributions and life insurance premiums.

Social security contributions

Employee social security contributions are payable at 13.07%. These are deductible for income tax purposes.

Expatriate rules

Expatriates are subject to Belgian tax on the portion of income attributable to working in Belgium. In addition, they can receive tax free payments to cover expenses such as housing, cost of living, relocation expenses, settling expenses, tax equalisation and a schooling allowance.

Corporate set up

Cost

Company set up costs start at around €3,000 and take around one month.

Corporate entity

The most common type of corporate entity is an NV/SA but an often used alternative is the less formal BVBA/SPRL.

The minimum share capital for these entities are currently €61,500 (NV/SA) and €18,550 (BVBA/SPRL).

For an NV/SA there is a requirement for at least two shareholders and at least three directors although there are no specific residence requirements (the director requirement is reduced to two if there are only two shareholders).

Locating some operational activity in a Belgium holding company can significantly reduce the group's effective tax rate, as interest costs and also a notional interest deduction is available and dividends received are 95% exempt.

Cyprus

Cyprus key facts

Investment climate

- local currency Euro (€)
- robust legal system with strong English Law influence
- highly qualified and multilingual labour force.

Quality of living

- relaxed pace of life
- great weather
- good telecommunications infrastructure
- high standard of education
- low crime, unemployment and homelessness.

Cyprus' location lends itself well to international trade, as it is central to three different continents and close to trade routes between Europe and Asia. Good transport links (sea and air) and an excellent telecommunications system further compliments the potential for international trade.

It also has the lowest headline rate of corporation tax in the EU at 10%. Its generous exemptions can sometimes result in a nil effective tax rate making it a very attractive jurisdiction for holding companies from a tax perspective.

Cyprus is very widely used for investment into Russia and Eastern Europe due to the favourable treaty provisions.

The services sector accounts for three quarters of the country's GDP with the main sectors being tourism, transport and communications, real estate and banking.

The quality of life in Cyprus is very good and the cost of living is low compared with many Western European countries.

Cyprus has new legislation which provides certain tax incentives with regards to IP.

Holding company

Corporate taxation

The standard rate of corporation tax in Cyprus is 10%, although certain passive income (ie interest) is subject to the special defence contribution at a rate of 15%.

No tax deduction is available on the interest costs of financing subsidiaries unless the company is treated as a finance vehicle within the group.

Stamp taxes and other capital duties

Capital duty of €103 plus 0.6% on the nominal amount of the authorised share capital exists. Subsequent increases of the authorised share capital are subject to a capital duty of 0.6%

Exemption from Cypriot corporation tax

A full dividend exemption is available provided that the company paying the dividend does not derive more than 50% of its income from investment activities or it is not subject to tax at a significantly lower rate than in Cyprus (in practice this is interpreted as a tax rate of less than 5%). If the exemption does not apply, the dividends are subject to the special defence contribution, at a rate of 20% (from 1 January 2012 for two years).

Capital gains arising on the disposal of shares are only taxable if the company holds immovable property that is situated in Cyprus (at a rate of 20%).

Cyprus is widely used for investment into Russia and Eastern Europe owing to very favourable treaty provisions.

Anti avoidance legislation

Cyprus does not have detailed transfer pricing rules, although transactions between connected parties should be on an arm's length basis.

Cyprus does not have any CFC (or equivalent) legislation. However, the availability of the dividend exemption may be restricted if the paying company is in a lower tax regime (ie less than 5% tax rate) or if the foreign company paying the dividend relates to more than 50% to investing activities.

It is possible for companies to obtain advanced rulings from the Cypriot tax authorities on the treatment of complex tax issues. These can usually be obtained in less than three weeks, but are not compulsory.

VAT

The standard rate of VAT in Cyprus is 17%. A reduced rate of 8% is applied to transport, accommodation and restaurants, while a 5% rate applies to pharmaceuticals, bottled non-alcoholic drinks, sweets and entry fees to cultural events.

Withholding taxes (WHT)

Cyprus does not impose WHT on interest or dividends payable to non residents.

The domestic rate of WHT on royalty payments to non residents for the use of royalties in Cyprus is 10% (other than film royalties on which a 5% WHT applies). An exemption is available for royalties payable to EU countries (where certain requirements are met) and reduced rates of WHT apply on royalties to certain treaty countries.

Double tax agreements

Cyprus has more than 46 agreements in effect, although it does provide a credit system for foreign tax suffered even where no treaty is in place.

Foreign shareholders

There is no Cypriot tax for foreign shareholders on the disposal of shares in a Cypriot company.

IP regime

Legal

Cyprus offers legal protection and recognition, broadly based on EU law, for patents, intellectual property and trademarks.

IP rules

IP amortisation is tax deductible over five years. 80% of any income generated from the exploitation of the IP is exempt from taxation. 80% of any profit generated from the disposal of IP is exempt from taxation.

R&D rules

Although there is no specific R&D tax regime a tax deduction is available for revenue scientific expenditure and capital expenditure may be amortised over six years.

Expatriate issues

Income tax

Individuals are taxed on all remuneration (including benefits in kind) for duties performed in Cyprus, on a progressive scale from 0% to 35%.

Various personal expenses are allowed as a deduction for tax purposes including life insurance premiums, social insurance contributions, approved provident fund contributions, approved medical scheme contributions, professional subscriptions and approved charitable donations.

Social security contributions

Employee social security contributions are payable at 6.8%.

Expatriate rules

Expatriates are entitled to an income tax exemption for the lower of 20% of emoluments and €8,550 per annum for the first three years of employment in Cyprus. Expatriates earning over €100,000 per annum are entitled to a 50% exemption for a period of up to five years (applicable from 2012.)

Corporate set up

Cost

Company set up costs start at around €2,500 and can take up to two weeks.

Corporate entity

The most common type of corporate entity is a private limited liability company, for which there is no minimum share capital requirements.

A Cypriot company can be established with only one shareholder and one director but a company secretary, who is not a sole director, must also be appointed.

Cyprus has one of the lowest corporate tax rate in the EU and its tax regime is relatively simple. There are new IP rules that make it attractive for both holding and IP holding companies.

Hungary

Hungary key facts

Investment climate

- local currency HUF (Hungarian Forint)
- EU member
- high percentage of skilled/semi-skilled labour, including technical personnel.

Quality of living

- excellent civil liberties
- very clean living
- relatively low cost of living.

Hungary is recognised as a holding company location primarily due to its relatively low wage cost and attractive tax regime. Its low headline corporate tax rate of 10/19% lends itself easily to a favourable holding company location, as does a low income tax rate, a participation exemption in terms of dividends, and an attractive IP regime, where capital gains on IP are exempt and income taxed at 5%/9.5%.

As a land-locked state bordering a number of Eastern European countries, including Romania, Ukraine, Slovakia, Croatia and Serbia it is well located to access these countries. Hungary has some natural resources and the arable land is widely used for viticulture, producing wine that is enjoyed globally. It is also a significant exporter, with its main manufactured exports including electric and electronic equipment, foodstuffs and chemicals.

The private sector accounts for more than 80% of Hungary's GDP and foreign ownership in Hungarian films is widespread.

Hungary has a relatively low cost of living and one of the biggest constraints in growth is its economic climate, having turned to the EU for support loans on a number of occasions, although this has significantly improved over the last few years.

Holding company

Corporate taxation

The effective headline rate of corporate tax in Hungary is 19% where taxable profits exceed HUF 500 million (€1.7million), otherwise taxed at 10%.

Stamp taxes and other capital duties

There is no capital duty or stamp duty applicable on the transfer of shares in Hungary unless the shares being sold hold Hungarian real estate.

Exemption from Hungarian corporation tax

A full dividend exemption is available on dividends received by a Hungarian company unless received from a CFC.

Capital gains on the disposal of shares are exempt (if at least 30% of shares are held for an uninterrupted period of one year and the acquisition of shares is notified to the Hungarian tax authorities) provided that the investee company is not considered to be a CFC (see below).

Anti avoidance legislation

Hungary has transfer pricing rules which require related party transactions to be conducted at arm's length. All related party transactions over HUF 50 million (€170,000) must be documented for transfer pricing purposes and advance pricing agreements are available.

In addition, there are thin capitalisation rules and where the debt:equity ratio exceeds 1:3 the interest exceeding this ratio will be disallowed.

Hungary has CFC legislation, and a foreign company is considered to be a CFC if there is a Hungarian individual holding shares for the majority of the days in a tax year or the majority of the foreign company's income derives from Hungary and it is taxed at a rate less than 10%. Foreign companies incorporated in the EU or in an OECD or treaty country are not considered to be a CFC if they have real economic presence in that country.

It is possible for companies to obtain advanced rulings from the tax authorities on the treatment of complex tax matters. These are not compulsory but are binding.

Hungary's low corporate tax rate and favourable IP regime makes it an attractive location for holding companies.

VAT

The standard rate of VAT is 27%. A reduced rate of 5% applies to medicine, aides for blind people and books, newspapers and music scores, supply of live music in restaurants and supply of heating services. A reduced rate of 18% applies to some basic foods, accomodation and outdoor concerts.

Withholding taxes (WHT)

There is no WHT on dividends paid to corporates, although dividends to individuals are subject to 16% WHT. This may be reduced where paid to individuals resident in countries that have a double tax agreement with Hungary.

There is no WHT on interest paid to corporates, although interest paid to individuals are subject to WHT at 16%. Reduced rates of WHT apply on interest paid to individual residents of most treaty countries.

There is no WHT applied on royalty payments to corporates, although royalties to individuals are subject to WHT at a rate of 16%. Reduced rates of WHT apply on royalties to individual residents of most treaty countries.

Double tax agreements

Hungary has more than 65 agreements in effect.

Foreign shareholders

There is no Hungarian tax payable by foreign shareholders on the disposal of shares in a Hungarian company. There is a 19% capital gain tax on the sale of shares in Hungarian real estate companies if the foreign shareholder is resident in a non-treaty country or the treaty gives taxing rights to Hungary.

IP regime

Legal

Hungary offers a good level of legal protection and recognition, broadly following EU law, for patents, trademarks, copyrights and industrial design and models.

IP rules

The IP regime includes patents, patent rights, trade marks and copyrights.

Under the regime, 50% of the royalty income relating to qualifying IP assets is deductible from the tax base resulting in an effective tax rate of 5% for profits less than HUF 500 million (€1.7million) and 9.5% thereafter. The deduction cannot exceed 50% of the accounting profit. In addition, amortisation is deductible over the useful economic life, resulting in a low effective tax rate.

From 2012, there is an exemption from capital gains on the disposal, on notified IP. This is where IP has been held for at least one year and the tax authorities were notified of the acquisition within 60 days of obtaining the IP.

R&D rules

There are no specific R&D tax incentives.

Expatriate issues

Income tax

Individuals are taxed on all remuneration (including benefits in kind) for duties performed at a rate of 16%. For income exceeding HUF 2.4 million (€8,000) there is a tax base supplement which results in an effective rate of 20.32%.

Social security contributions

Employers' social security contributions are payable at 27%. Employees pay 8.5% health and unemployment contribution and 10% pension contribution capped at c. €27,500 (HUF 7.9 million).

Expatriate rules

Expatriates are subject to Hungarian tax on the portion of income attributable to working in Hungary.

Corporate set up

Cost

Company set up costs start at around HUF 500,000 (€1,730) and take around one month.

Corporate entity

The most common type of corporate entity is a Kft, a limited liability company but other alternatives are a Zrt, private company limited by shares, and a Nyrt, a public company limited by shares.

The minimum share capital for a Kft is currently HUF 500,000 (€1,730).

There are no requirements or limits on the number of shareholders or local management.

Whilst Hungary does not have a specific R&D tax regime, its low effective rate in respect of IP of 5%/9.5% means that it is often considered for a group IP company.

Ireland

Ireland key facts

Investment climate

- local currency Euro (€)
- relatively stable political environment
- respected regulatory regime.

Quality of living

- advanced IT and telecommunications infrastructure
- improvements being made to transport infrastructure
- high standard of education
- english speaking with access to multilingual skills
- large population of foreign nationals.

As a member of the EU, with a young and highly educated workforce, Ireland has a wider draw as a holding company location than just its tax regime.

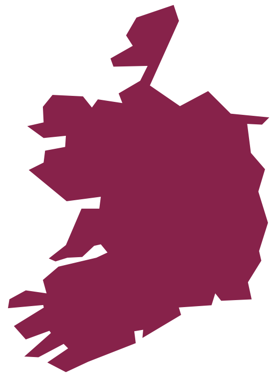
Ireland's low tax rate, dividend exemption, limited transfer pricing and lack of CFC rules means that it is an attractive holding company location. In addition, there have been a number of high profile companies relocate their headquarters to Ireland in the past few years.

Key sectors in which Ireland has built up a concentration of expertise are manufacturing, pharmaceuticals, medical devices, technology, software and financial services.

Ireland is very attractive for groups looking for tax efficient financing structures, such as interest free loans via intermediary locations including Luxembourg or the Netherlands.

The cost of living in Ireland was relatively high in the past but has reduced over the last few years with recent incentives for foreign executives.

One of the key draws as an IP holding company location is the potential effective rate of tax on IP related income of 2.5% (after deduction of tax depreciation) – which is one of the lowest in Europe. Ireland's R&D tax regime works well for groups moving to Ireland and also offers advantages for groups already located in Ireland.



Holding company

Corporate taxation

The standard rate of corporation tax in Ireland is 12.5% for trading activities, including dividends from trading companies. Passive income such as interest, rents and royalty income (where it is not regarded as being trading income) is taxable at 25%.

Stamp taxes and other capital duties

There is no stamp duty on the issuance of shares. However, there is stamp duty of 1% on the transfer of shares but group relief is available.

Exemptions from Irish corporate tax

Whilst there is no dividend exemption, the credit system operating in Ireland means that dividends received from a jurisdiction with a higher rate of corporate tax than is applied in Ireland are effectively exempt. Any unrelieved foreign tax credits can be used to credit other foreign dividends received.

Capital gains arising on the disposal of shares in EU or relevant treaty country companies are exempt where those shares represent at least 5% of the shares in a trading company and have been held for a period of 12 months out of the previous two years.

Anti avoidance legislation

Ireland has recently introduced limited transfer pricing rules which require related party trading transactions to be conducted on an arm's length basis. Interest on connected party loans is outside these rules. There is also an exemption for small and medium sized enterprises.

Ireland does not have any CFC (or equivalent) legislation.

It is possible for companies to obtain advance opinions from the Irish tax authorities on the treatment of certain tax matters. They are not compulsory and can be relatively cheap to obtain.

VAT

The standard rate of VAT is 23%. A reduced rate of 13.5% applies to fuel for power and heating, electricity and gas and a 9% rate applies to hotel accomodation, hotel and restaurant meals, newspapers, admissions to cinemas and certain live theatrical and musical performances.

Ireland is an attractive holding company jurisdiction. Tax on IP related income can be as low as 2.5%, and its R&D tax regime works well for groups moving to Ireland.

Ireland is favoured by high tech, pharmaceutical and manufacturing companies. Examples include Apple, Oral B, Dell, Microsoft and Hewlett Packard.

Withholding taxes (WHT)

The domestic rate of WHT applied on dividends is 20%, although there is no WHT applied on dividends to EU or treaty countries.

The domestic rate of WHT on annual interest payable is 20%. An exemption is generally available on interest payable to EU or treaty countries subject to certain conditions being met.

The domestic rate of WHT on patent royalty payments is 20%. An exemption is generally available on patent royalties payable to EU or treaty countries subject to certain conditions being met. Patent royalty payments to non treaty countries can also be made free of WHT, subject to certain conditions being met.

Double tax agreements

Ireland has more than 65 agreements in effect.

Foreign shareholders

There is no Irish tax payable for foreign shareholders on the disposal of shares in an Irish company unless the shares derive their value from specified assets such as Irish land and minerals.

IP regime

Legal

Ireland has a robust legal framework, based on EU legislation, for the protection of IP including patents, copyrights, trademarks, computer software and industrial designs and models.

IP rules

The IP regime includes most intangible assets (including software and goodwill). To qualify these assets must be used in active trade.

Under the regime, IP amortisation is tax deductible in line with the accounting treatment. Alternatively, an election can be made to spread the expenditure over a 15 year period in the form of an allowance. Amortisation is based on the market value of the asset, even when it is acquired from a connected party.

Income arising from qualifying IP can be offset by the amortisation or the elected allowance (as above) and also finance costs of acquiring that IP. The deduction for interest and amortisation is capped at a maximum of 80% of the trading income derived from that IP. This can result in an effective tax rate of 2.5%.

Capital gains arising on the disposal of IP are subject to tax at the standard rate of 30% but deferral options may be available.

R&D rules

A 25% tax credit is available on qualifying R&D expenditure (both capital and revenue) in addition to a deduction for the revenue expense. The credit can be reclaimed as a cash refund, although this is capped at the higher of payroll taxes paid in the year or corporation tax paid in the last 10 years.

Expatriate issues

Income tax

Individuals are taxed on all remuneration (including benefits in kind) for duties performed in Ireland, on a two tier system of income tax rates starting at 20% up to €32,800 and 41% on income exceeding €32,800.

Social security contributions

Employee social security contributions are payable up to 4%. A universal social charge is also payable on gross income from all sources. The rates are 2% on the first €10,036, 4% on the next €5,980 and 7% thereafter. A rate of 10% applies to individuals who have income from self employment income that exceeds €100,000 a year.

Expatriate rules

Tax free subsistence payments are possible for secondments in certain circumstances and there are incentives for high paid expatriates.

Corporate set up

Cost

Company set up costs start at circa €800 and can take up to 10 days.

Corporate entity

The most common type of company is a limited company, for which there are no minimum share capital requirements.

An Irish limited company can have a minimum of one shareholder, although at least two directors (one being EEA resident) and a company secretary are required.

Top planning tip: By transfering existing group IP to an Irish company the allowances on the IP in Ireland are calculated on the market value at the time of acquisition (even if transferred from a connected party).

Luxembourg

Luxembourg key facts

Investment climate

- local currency Euro (€)
- stable economy
- very stable political environment with a pro-business government
- access to a pool of highly skilled, hardworking, multilingual employees.

Quality of living

- neutral country considered one of the safest in Europe
- low crime
- very good infrastructure
- high standard of education.

Luxembourg has long since been a favoured holding company location. A member of the EU, it is a neutral country, which is very stable politically and with a very high quality of living for a reasonable cost. Luxembourg is renowned as a safe country, encouraging high calibre expatriates.

Luxembourg's government understands the need for a close working relationship with businesses and the resilient stable tax regime offers groups certainty about the tax system.

Despite its high headline tax rate (ie 28.8% for businesses established in Luxembourg City in 2012), there are a number of deductions which can significantly reduce the effective tax rate. In addition, its dividend exemption, exemption for capital gains and nil WHT on interest and royalties, together with its flexible company law which allows partial liquidations, mean that there are tax benefits of locating here.

Companies based in Luxembourg also have access to a highly qualified workforce, not just Luxembourgers, but those from France, Germany and Belgium, as commuting is widespread.

Luxembourg is known for financial and logistics/transport companies, although more recently it has attracted a number of high technology companies.

Holding company

Corporate taxation

Tax is levied at both the statutory level and the municipal level. For a company based in Luxembourg City, the total effective tax rate would be 28.8%.

Stamp taxes and other capital duties

There are no stamp taxes applied on the issuance or transfer of shares.

There is an annual net wealth tax of 0.5% on all non-qualifying assets, such as cash or receivables as at 1 January of any given year. However, qualifying participations (as set out below) and IP held by a Luxembourg holding company are not included in the calculation of net wealth tax.

Exemptions from Luxembourg corporate tax

A full dividend exemption is generally available on dividends received from qualifying shareholdings. The conditions to qualify are shareholdings of at least 10% of the share capital (or an acquisition price of at least €1.2 million) and shareholdings which have been held for at least 12 months.

Capital gains arising on the disposal of shares are exempt where those shares represent at least 10% of the share capital or if the acquisition price is at least €6 million and the shares have been held for at least 12 months.

Anti avoidance legislation

Luxembourg has introduced transfer pricing rules limited to financing activities within intra group companies. Domestic related party transactions fall outside these rules.

It is possible for companies to obtain an advanced tax agreement from the Luxembourg tax authorities on the treatment of certain complex tax matters. These are not compulsory and can be costly. Advanced tax agreements are commonly obtained for financing or IP structures.

> The IP regime offers a low effective tax rate on income and gains, with low VAT rates (15%). R&D investment on acquired IP and self developed patents and trademarks is encouraged by the availability of an 80% notional deduction.

> The favourable IP rules have encouraged high tech companies to hold and develop IP here. Examples include CVC Capital Partners, Skype and eBay.

VAT

The standard rate of VAT is 15%. A reduced rate of 12% applies to management services, 6% to gas and electricity and 3% for food, medical treatment and books and newspapers.

Withholding taxes (WHT)

Dividends paid from Luxembourg are subject to WHT at 15%, reduced to nil for payments made to a company resident in the EU or in the vast majority of countries with which it has a double tax agreement.

There is no WHT on interest or royalty payments.

Double tax agreements

Luxembourg has more than 60 agreements currently in effect.

Foreign shareholders

There is generally no Luxembourg tax payable by foreign shareholders on the disposal of shares in a Luxembourg company.

IP regime

Legal

Luxembourg offers good legal protection and recognition for patents, trademarks, copyrights and industrial designs and models.

IP rules

The IP regime applies to many registered intangible assets (including patents and trademarks) acquired or developed after 31 December 2007.

100% amortisation is available on the market value of IP, even when transferred intra group.

Under this regime, there is an 80% exemption on the net royalty income arising from qualifying IP. In calculating the net royalty, a deduction is available for amortisation and other directly related costs. This results in a maximum effective tax rate of 5.76%.

On disposal of the qualifying IP, 80% of the capital gains realised are exempt from tax.

R&D rules

There is a deemed deduction in relation to self developed patents, trademarks or copyrights on software used in the company. This notional deduction is calculated as 80% of the net income that would have been received if the patent, trademark or copyright had been licensed to a third party.

Expatriate issues

Income tax

Individuals are taxed on all remuneration (including benefits in kind) for duties performed in Luxembourg, on a progressive scale from 0% to 39%. In addition, a solidarity tax is payable at 4% of the calculated income tax due.

There are general deductions allowable in determining an individual's taxable income for both business and private purposes such as life assurance and health insurance premiums, childcare costs, loan interest and personal pension contributions.

Social security contributions

Employee social security contributions are payable at 12.45%.

Expatriate rules

From 1 January 2011 there is a special tax regime for expatriates. The regime only applies to highly skilled expatriates and provides for tax relief in respect of certain relocation expenses incurred. A written application must be submitted to the Luxembourg tax authorities and if the relevant conditions are met the Luxembourg tax authorities will confirm that the regime applies.

Corporate set up

Cost

Company set up costs start at around €6,500 including notary fees, and the process can take less than a week.

Corporate entity

The most frequently used company form is a SARL, which has a minimum share capital requirement of €12,500. This can be set up with only one shareholder and requires the appointment of one manager (with no resident or nationality requirements).

Other companies used are SAs (public limited companies) and SCAs (equivalent of a partnership limited by shares).

SAs can be set up with a minimum of one shareholder but require a minimum of three directors with no residence or nationality requirements. The minimum share capital requirement is €31,000.

Malta

Malta key facts

Investment climate

- local currency Euro (€)
- politically and economically stable
- access to a productive workforce.

Quality of living

- very low crime
- good weather
- reasonably priced international schools
- relaxed pace of life.

Malta has a high headline tax rate but the tax refund system and some relatively simple planning can significantly reduce the effective rate. Malta has a participation exemption in respect of dividend income and capital gains from a qualifying subsidiary and any overseas tax suffered by a Maltese company would generally be eligible for relief against the Malta tax liability arising on the corresponding source of income. In addition, the absence of transfer pricing and CFC rules attract groups to locate their holding companies in Malta.

Located in the Mediterranean, midway between Europe and Africa, its local currency is the Euro. The Maltese workforce are educated and very hard working.

Malta relies on foreign trade and given its location this is mainly with the EU, Asia and the US. Its economy is dominated by tourism, manufacturing, technology and finance.

For expatriates, the living costs in Malta are one of the lowest in Europe, and the international schools reflect this low cost of living. In addition, the good climate and relaxed pace of life make it an attractive place for expatriates and their families.

Malta has one of the lowest taxation regimes for IP, with a 0% rate for patent royalty income from inventions and copyright-protected books, film scripts, music and art, and 5% for other royalty income actively used in the trade.

Holding company

Corporate taxation

The standard rate of tax in Malta is 35%. A refundable tax credit is available as follows:

- full refund for dividends from participating holdings
- 6/7ths for income and dividends from active companies
- 5/7ths for dividends from passive income or royalty income
- 2/3rds where Double Tax Relief is claimed.

Interest expenses related to the financing for the acquisition of participations can be offset against dividend income and capital gains derived from the particular participation being financed.

Indirect taxation

There is a 2% duty on the transfer of shares. An exemption is available if 90% of the company's business activities are overseas.

Exemptions from Maltese corporate tax

A full dividend exemption is generally available on receipt of dividends where the holding is at least 10%. Broadly, for the exemption to apply, the paying company must either be EU tax resident, or have at least 50% of its income from trading activities, or be subject to a tax rate of at least 15% (5% in the case of passive interest and royalties), in its own jurisdiction.

Capital gains arising on the disposal of participating holdings in both foreign and local companies are exempt.

Malta has recently introduced a full tax sparing regime. Under that regime if an overseas subsidiary benefits from tax holidays in the country in which it is resident, any dividends distributed by this company to its Maltese parent are exempt from any taxation in Malta, as the participation exemption will apply. Furthermore, it is also possible to structure the receipt of tax-free dividends from subsidiaries established in tax havens.

The widely applicable domestic and international participation exemption and the very favourable IP regime make Malta attractive as a location for holding company or IP holding companies.

Malta is particularly good for gaming and technology companies. Examples include Betsson, Unibet and GFI Software.

Anti avoidance legislation

Malta does not have any transfer pricing rules or CFC (or equivalent) legislation.

It is possible for companies to obtain an advance ruling from the Maltese tax authorities on the treatment of specific tax matters. In limited circumstances these are compulsory.

VAT

The standard rate of VAT is 18%. A reduced rate of 7% applies to accommodation and a rate of 5% to electricity, sweets, medical accessories, books and newspapers and art. Zero-rated goods include gold, food and pharmaceuticals.

Withholding taxes (WHT)

There is no WHT payable on dividends, interest or royalty payments to non residents.

Double tax agreements

Malta has 55 agreements currently in effect and a further 8 are awaiting ratification.

Foreign shareholders

There is no Maltese tax payable for foreign shareholders on the disposal of shares in a Maltese company.

IP regime

Legal

Malta offers a high level of legal protection, in line with international protocols, for patents, copyrights and trademarks.

IP rules

The IP regime applies to registered IP including patents, copyrights, trademarks and written know how.

Under the regime, royalties and similar income derived from registered patented inventions are exempt from tax.

The rate of tax for other royalties depends on whether they are actively used in the trade or passively held. Income from 'trading' IP is effectively taxed at 5%, whilst that from 'passive' IP is taxed at 10%.

The tax treatment of IP amortisation depends on whether it is capital or revenue. If revenue (ie it is recurring), it is tax deductible in line with the accounts. If capital, this is deductible straight line over three years for IP rights, six years for scientific research and over the useful economic life for patents.

Capital gains in respect of IP are taxed at an effective rate of 5%.

R&D rules

The R&D regime provides for tax relief of 150% of qualifying R&D expenditure if the activity is undertaken by the company.

Expatriate issues

Income tax

Individuals are taxed on all remuneration (including benefits in kind) for duties performed in Malta, on a progressive scale from 15% to 35%.

Highly qualified non-Malta domiciled individuals employed in an eligible office within a Malta Financial Services Authority or Lotteries and Gaming Authority licensed company, having an annual income in excess of €75,000, may benefit from a flat personal tax rate of 15%.

Furthermore, this 15% flat personal tax status is also available for high net worth individuals (subject to certain conditions being satisfied) applicable on foreign income remitted to Malta subject to a minimum annual amount of €20,000 (and €2,500 for every dependant) for EU, EEA and Swiss nationals and €25,000 (and €5,000 for every dependant) for non-EU/EEA/Swiss nationals, after double taxation relief.

Social security contributions

An amount equivalent to 10% of the weekly wage (up to a maximum of €1,840 per annum for 2011) is deducted from the employee's salary and an equivalent amount is payable by the employer. EU citizens may be exempt from the payment of social security contributions if they are in Malta on a temporary basis and pay statutory contributions in their home country.

Expatriate rules

Expatriates are only taxed in Malta on their Maltese sourced and remitted income.

Corporate set up

Cost

Company set up costs start at around €2,000 (including share registration fees) and can be completed in less than a week.

Corporate entities

The most frequently used company form is the Private Limited Liability company which has a minimum share capital requirement of €1,165. This company must be owned by a minimum of two shareholders but only requires one director and a company secretary. It is also possible to have a private exempt single member company.

Top planning tip: By using a non-domiciled tax resident Maltese company, income is only taxed on a remittance basis. Use of an offshore bank account can therefore result in a very low effective tax rate.

The Netherlands

The Netherlands key facts

Investment climate

- local currency Euro (€)
- stable economy
- politically stable with a pro-business government
- access to a pool of highly skilled, hardworking, multilingual employees
- robust labour laws can become onerous for companies employing 50 or more employees.

Quality of living

- consistently outranks many of its EU counterparts for quality of living and attracting talented foreigners and developing highly qualified staff
- low crime
- excellent infrastructure especially transport
- high standard of education.

The Netherlands is a popular holding company location mainly driven by commercial reasons as the country is central to, and has good connections with, Europe (and the rest of the world). The high headline tax rate is balanced by the dividend exemption, the capital gains tax exemption on disposal of shares and the absence of comprehensive CFC rules.

Further, the Netherlands is often used as a location to set-up license and finance companies due to the absence of WHT on interest and royalty payments and the extensive tax treaty network. Due to the scarcity of natural resources and raw materials and the small size of the domestic market, the Netherlands is seen somewhat as a 'processing economy' with the manufacturing sector being dependent on imported materials. Major export industries include oil and gas, chemicals, electronics, office equipment, telecommunications, pharmaceuticals and food. It also has a sophisticated and growing financial services sector.

There is a large pool of highly skilled, hardworking, multilingual employees and foreign businesses find it easy to integrate due to the very open culture.

For expatriates, the Netherlands offers a high quality of living at a reasonable cost and a favourable expatriate tax regime is available.

Holding company

Corporate taxation

The standard rate of corporation tax in the Netherlands is 25% (with a 20% rate applying to profits up to €200,000). In principle, a tax deduction is available for interest on loans to acquire subsidiaries although certain interest deduction limitations might be applicable.

Due to the absence of Dutch WHT on interest and royalty payments, the Netherlands is often used for routing international debt financing and licensing activities. The Dutch finance/license company will only be subject to a small level of taxation on the spread which can be agreed upfront with the Dutch tax authorities.

Stamp taxes and other capital duties

There is no capital duty or stamp duty applicable in the Netherlands.

Exemption from Dutch corporate tax

A full dividend exemption is available on dividends from shareholdings of at least 5% with no holding period requirement.

Capital gains arising on the disposal of shares are exempt where those shares were part of a holding of at least 5% of the company with no holding period requirement.

The above exemptions generally apply to the disposal of shares in active companies and in certain circumstances, passive investment companies if they are subject to a rate of 10% taxation. Real estate companies are always considered to be active companies subject to the Dutch participation exemption even if they are located in low tax countries.

Anti avoidance legislation

The Netherlands has transfer pricing rules, which require all related party transactions to be conducted on an arm's length basis.

There is some legislation regarding tax havens, but there is no comprehensive CFC (or equivalent) legislation.

Top planning tip: Use a Cooperative ('COOP') entity as a holding company, where shareholders are resident outside the EU. In certain circumstances, distributions can then be made to shareholders without the deduction of any WHT.

It is possible for companies to obtain advanced rulings from the Dutch tax authorities on the treatment of complex tax matters. They are not compulsory and are generally moderately priced.

A company can obtain an advance tax ruling (ATR) or an advance pricing agreement (APA), the aim being to attract international investors to the Netherlands by providing them with certainty about their future tax position.

An APA provides certainty in advance of the fiscal acceptability of the price (transfer pricing) that the Dutch group company pays to or receives from a foreign group company for receiving or delivering services or goods. Whereas an ATR is an agreement on the tax characterisation of international corporate structures, such as certainty in advance on the application of the participation exemption.

VAT

The standard rate of VAT is 21% (from 1 October 2012). A reduced rate of 6% applies to food, books, medicines, magazines, transport and accommodation. Some services such as financial and medical are exempt from VAT.

Withholding taxes (WHT)

The domestic rate of WHT applied on dividends is 15%. An exemption is available on dividends paid to companies in EU countries subject to certain conditions being met and reduced rates of WHT apply on dividends to certain treaty countries. On an international level, the WHT can be reduced to zero by making use of a coop entity.

There is no WHT on interest and royalties payable to non residents.

Double tax agreements

The Netherlands has more than 110 agreements in effect.

Foreign shareholders

If certain specific conditions are fulfilled, there is no Dutch tax payable for foreign shareholders on the disposal of shares in a Dutch company.

IP regime

Legal

The Netherlands offers good legal protection and recognition for patents, trademarks, copyrights and industrial designs and models.

IP and R&D rules

The 'innovation box' regime offers generous IP and R&D tax relief for intangible assets of a technical nature (this includes IP, R&D and knowhow but excludes goodwill and trademarks).

The innovation box regime is optional and a group may elect for assets to be included, although once elected, the asset must stay in the regime until sold.

Under the regime, income and gains of the qualifying assets are effectively taxed at 5%.

IP amortisation is tax deductible.

Income and capital gains in relation to IP outside the regime will be taxed at the headline rate of 25%.

In addition to the innovation box, a company can obtain a substantial reduction in the level of payroll tax and social security contributions in respect of technical employees, subject to certain criteria being met.

In the 2012 tax reform, a new tax incentive was introduced, the research & development deduction (RDA). The RDA applies to costs incurred for, and investments made in, R&D incurred after 31 December 2011.

Expatriate issues

Income tax

Individuals are taxed on all remuneration (including benefits in kind) for duties performed in the Netherlands, on a progressive scale up to 52%, inclusive of social security contributions.

Benefits in kind

Generally certain benefits can be provided on a tax efficient basis including child care arrangements, company car, cost of living allowance, schooling, housing, medical expenses, relocation expenses and pension arrangements.

Expatriate rules

If all relevant conditions are met, 30% of gross income may be paid out without being subject to income tax. This results in an effective rate of income tax (and social security contributions) for expatriates of 36.4%.

Expatriates may also be entitled to special deductions for relocation related expenses.

Corporate set up

Cost

Company set up costs start at €3,500 and can take up to two weeks.

Corporate entity

The most common type of company in the Netherlands is a BV. However, COOPs are often used for international tax structuring for those wishing to distribute profits outside the EU without WHT (if certain conditions are fulfilled).

For a BV, the minimum share capital requirement is €18,000, it is permitted to have only one shareholder and there are no director requirements.

For IP, the newly extended innovation box regime, offers groups a very competitive tax regime for technical IP. By electing into the regime, income and gains from qualifying assets are effectively taxed at 5%.

Examples of companies headquartered in the Netherlands are BHP Billiton, Nike, Ikea and Coca Cola.

Spain

Spain key facts

Investment climate

- local currency Euro (€)
- respected regulatory regime
- skilled and semi skilled labour, including technical and professional personnel, widely available.

Quality of living

- good weather
- relaxed pace of life.

Culturally and linguistically, Spain is considered a strategic location for accessing Latin America, and its favourable treaty network with these countries further its attraction for investing in Latin America.

Although Spain has a relatively high corporation tax rate, it has a good holding company regime which offers a participation exemption for dividends and capital gains and a good treaty network.

Spain's economy is largely service orientated, with services accounting for more than 66% of its GDP. It has a modern countrywide infrastructure in terms of transport and also wireless technology. Spain's main industries are tourism, manufacturing, construction and real estate.

The quality of life in Spain is very good and the cost of living is low compared with many other European countries and therefore it can be a desirable location for expatriates.

In terms of IP, Spain has a favourable R&D tax regime which offers generous tax credits and, together with the IP exemption regime, a company may be able to obtain a low effective tax rate on its IP income.

Holding company

Corporate taxation

The standard rate of corporation tax in Spain is 30% for trading activities, although a tax credit of 12% is available if proceeds from the disposal of assets are reinvested in qualifying assets.

Stamp taxes and other capital duties

There is no capital duty or stamp duty applicable in Spain from 1 January 2011.

Exemptions from Spanish tax

If a company qualifies as a Spanish holding company, an 'ETVE', it is exempt from Spanish corporate tax on foreign-source income, including dividends, that it receives and the capital gains it realises on the sale of foreign participations if certain conditions are met.

The conditions include a shareholding of at least 5% of shares (or a participation acquisition value over €6 million) is held for the previous 12 month period.

For an entity to qualify as an ETVE, it must hold shares in overseas subsidiaries and notify the Spanish Tax Authorities.

Anti avoidance legislation

Spain has CFC legislation that applies where there is a 50% shareholding and the effective tax rate of the non-resident is less than 75% of the Spanish tax rate.

There are also anti avoidance rules regarding dividends and capital gains from subsidiaries resident in tax havens.

As from March 2012, thin capitalisation rules in Spain have been replaced by a general limitation on the deductibility of gross financial expenses. The new rules allow a deduction up to 30% of the operating profit of the fiscal year (earning-stripping rule), although financial expenses will be 100% deductible up to €1 million. This limitation will apply for the indebtedness from non EU companies, EU companies and Spanish companies, regardless of whether the companies are related entities (although there are a number of exceptions to the application of the rule).

VAT

The standard rate of VAT is 21%. A reduced rate of 10% applies to newly built properties, hotels, restaurants and entertainment and a 4% rate applies to food, newspapers and books. Financial, insurance and medical services are exempt from VAT.

Withholding taxes (WHT)

An ETVE can distribute to its non Spanish resident shareholders (without a permanent establishment in Spain), the profits that result from receipt of foreign exempt income, as described above, free of any Spanish WHT.

The domestic rate of WHT on annual interest payable is 21%. This rate may be reduced to 0% under the EU parent subsidiary directive and this rate can also be reduced under treaties.

The domestic rate of WHT on royalty payments is 24.75%. This rate may be reduced to 0% under the EU parent subsidiary directive. This rate can also be reduced with certain treaty countries.

Double tax agreements

Spain has more than 80 agreements in effect.

Foreign shareholders

A capital gain realised on the liquidation of an ETVE or on the sale (fully or partly) of the company will be tax exempt. Any part of the consideration which relates to Spanish subsidiaries would not be exempt.

IP regime

Legal

Spain offers a high level of legal protection and recognition for patents, trademarks, knowhow, goodwill, copyrights and industrial design and models.

IP rules

The IP regime applies to many registered intangible assets. Companies can benefit from an IP tax exemption of 50% of the revenues arising from the right to use certain qualifying IP rights. Such qualifying IP includes patents or information concerning industrial, commercial or scientific experience. Royalties from any other source are excluded from this incentive. In addition there is a 100% deduction of the development costs of any IP.

This incentive is compatible with the R&D tax credit, so that in many situations both incentives can apply at the same time.

R&D rules

Spain has an R&D regime under which companies can obtain a deduction of between 25% and 42% of the R&D expenditure in a tax year. If the R&D expenses incurred in a year exceed the average amount of expenses in the previous two years, the 25% rate applies to the average rate and the 42% rate applies to the excess.

An additional credit of 17% of the costs relating to payroll of the staff exclusively assigned to R&D activities is available, as well as a deduction of 8% for tangible assets used exclusively within the R&D activity.

Expatriate issues

Income tax

Individuals are taxed on all earned income and passive income and rates are progressive from 24% to 56%. Savings income is taxed at 21%, 25% and 27%.

Social security contributions

Employees pay social security at 6.35%.

Expatriate rules

Spain has a special regime for expatriates assigned to Spain as a consequence of an employment contract.

Expatriates eligible for this regime are only taxed on income obtained in Spain, and this is taxed at a 24% flat rate.

Due to its holding company regime and a strong treaty network Spain is commonly used as a location for investments into South America.

Corporate set up

Cost

Company set up costs start at circa €1,000 and can take up to two weeks.

Corporate entity

The most common entity in Spain is an SL (limited liability company). For a SL the minimum share capital requirement is €3,000.

Switzerland

Switzerland key facts

Investment climate

- local currency – Swiss Franc (CHF)
- economic and political stability
- free movement of persons agreement in place with a number of EU countries allowing those workers to have the same rights as a Swiss Citizen to live and work.

Quality of living

- low crime
- good infrastructure in terms of roads, airports and energy
- numerous languages spoken
- high standard of public education, with very good schools available for expatriate families
- picturesque.

Switzerland is a highly recognised European commercial holding company location given its stable currency and political conditions. Although Switzerland has a complex tax system, its low corporate and personal tax rates, excellent treaty network and sophisticated work force mean it is popular as a holding company location.

Historically, Switzerland is renowned as a financial services hub, although other key sectors include manufacturing, pharmaceutical and consumer business as well as food.

Switzerland is one of the wealthiest countries in the world and has a very high cost of living such that expatriates demand the best remuneration packages.

It is located at the centre of Europe and has forged close ties with the EU despite not being a member itself. It has agreements on the free movement of persons with the EU countries, although work permits are still required. In addition, the Switzerland-EU savings directive provides Switzerland with access to benefits similar to those in the EU parent subsidiary directive.

Holding company

Corporate taxation

Corporate tax is levied at the federal and cantonal level. The effective federal tax rate is 7.8% (after deducting income tax in arriving at the taxable income). The cantonal tax rate varies significantly and can bring the effective rate of tax between 12.5% and 25% depending where the company is located in Switzerland.

For those companies granted holding company privilege, they are exempt from cantonal taxes and therefore only federal tax is payable at the effective rate of 7.8%. Holding company privilege only applies for companies whose primary activity is the holding of qualifying investments and who have no active trade or business in Switzerland and two thirds of their total assets/income are in the form of subsidiary investment/dividends.

If a company is granted a mixed company status it reduces cantonal tax. Cantonal tax is only payable on 10-25% of foreign source income such that the total effective tax rate is typically 9-11%. The mixed company status is granted to companies with predominantly foreign business activities where at least 80% of revenue and expenses are foreign source.

Stamp taxes and other capital duties

There is an annual capital tax on the value of equity of the Swiss company, the rate of which depends on the canton and ranges from approximately 0.001% to 0.01%.

Stamp duty at 1% is payable on the initial issuance of shares exceeding the amount of c.€830,000 (CHF 1 million). Exemptions are granted for some group reorganisations.

Exemption from Swiss corporate tax

A full dividend exemption is generally available from shareholdings of at least 10% with no holding period requirement.

Capital gains arising on the disposal of shares are exempt where those shares represent at least 10% of the share capital and are held for at least one year.

Although Switzerland has a complex tax system, its potentially low corporate and personal tax rates and excellent treaty network means it is a very popular European holding company location.

Switzerland is good for financial services, food and high-end consumer companies. Examples include Swiss Re, Nestle, Novartis and Rolex.

Corporate information

Anti avoidance legislation

Switzerland has transfer pricing rules, which require all related party transactions to be conducted on an arm's length basis.

Switzerland does not have any CFC (or equivalent) legislation.

It is possible for companies to obtain private rulings from the Swiss Tax Administration on the treatment of certain tax matters, but they are not necessarily required.

VAT

The standard rate of VAT is 8% (until 2018). A reduced rate of 3.8% applies to accommodation and 2.5% for food, water, medical products, newspapers, books and magazines. Public health, education and social services are exempt from VAT.

Withholding taxes (WHT)

The domestic rate of WHT applied to dividends is 35%, although there are significantly reduced rates with treaty countries. In addition, under the Switzerland-EU savings directive WHT is reduced to 0% on cross border dividend payments between related EU companies provided certain conditions are met.

Under domestic law there is no WHT on interest payable. However a 35% WHT is applied to interest derived from deposits with Swiss banks and bonds. This rate can be significantly reduced under treaties.

There is no WHT payable on royalties.

Double tax agreements

Switzerland has more than 100 agreements in place.

Foreign shareholders

There is no Swiss tax payable for foreign shareholders on the disposal of shares

Top planning tip: WHT on dividends may be a real barrier to locating in Switzerland. This can be mitigated with some relatively simple planning, for example by making payments to shareholders out of a share premium account.

IP regime

Legal

Switzerland offers a high level of legal protection for all forms of IP including patents, industrial design and models, trademarks and copyrights.

IP rules

The IP regime in Switzerland applies broadly to all types of intangible assets, including goodwill and knowhow.

Income arising from this IP is taxed at an effective rate of 9%-11% (depending on the canton and subject to agreement with the tax authorities) providing at least 80% of total income and expenses are foreign source income.

IP amortisation is tax deductible, either on a straight line basis (20% of the value each year) or on a reducing basis (40% declining balance).

Capital gains arising on the disposal of IP are taxed at between 9%-25% (depending on the canton and subject to agreement with the tax authorities).

R&D rules

Companies can claim an allowance in respect of qualifying R&D expenditure to third parties, capped at a maximum amount of 10% of current taxable profit and up to a maximum of CHF 1 million (€830,000).

Expatriate issues

Income tax

Individuals are taxed on all remuneration for duties performed in Switzerland, on a progressive scale between 22% and 42% (depending on the canton). The cantons of Schwyz and Zug are widely considered to have the lowest effective rates for personal tax.

Social security taxes

The total social security contribution is 10.3% of remuneration. Half of this is paid by the employer and the other half by the employee. Additional compulsory pension plan contributions by the employee start at 10% and are dependent on age and the scheme chosen. Individuals are also required to contribute to unemployment insurance, with the employee broadly contributing half of the 2.2% contribution.

Expatriate rules

There are special deductions against taxable income for expenses such as housing, relocation and schooling costs unless reimbursed by the employer.

If expatriates are affiliated to their own social security system, they are exempted from paying Swiss social security taxes.

Corporate set up

Cost

Company set up costs start at CHF 5,000 (c.€3,800), and can take up to four weeks.

Corporate entities

The most frequently used entity is the corporation, AG. However, the Swiss limited liability company, the GmbH, has less formal requirements than an AG entity and its use is increasing in popularity.

For both legal forms, there are minimum share capital requirements, and the entity must have at least one shareholder and at least one Swiss resident board member or director.

United Kingdom

United Kingdom key facts

Investment climate

- local currency GBP (£)
- stable political environment and respected regulatory regime
- large local pool of skilled labour
- labour laws are less stringent than EU labour laws

Quality of living

- high quality infrastructure
- high standard of education
- high crime in some areas
- an increasingly more multicultural society.

The UK has historically been a popular holding company location as a commercial gateway to Europe. From a tax perspective, there is a strong treaty network, a dividend exemption, an exemption from capital gains on disposal of shares, and no WHT on dividends, although the previously high headline rates and complex legislation has detered some groups.

Commercially, the UK offers stability, both politically and economically, and has extensive links with the rest of Europe.

Whilst the UK work force is well educated, the level of linguistic skills is often limited to English.

The key sectors for the UK include construction and property, financial services and media and entertainment.

With a free health service and good schools it can attract high-calibre expatriates. As the cost of living in the South is high, expatriates will expect high remuneration packages.

In terms of IP, the UK has a favourable, although complex, R&D tax regime which offers generous tax deductions and credits, the magnitude of which depends on the size of the group. This is currently under review and it is expected that the regime will be changed with effect from April 2013 to be more favourable for larger groups.

Holding company

Corporate taxation

The headline rate of corporation tax is 24% from 1 April 2012 (26% prior to this date). The Government has announced its intention to reduce this by 1% each year for the next two years bringing this down to 22% by 1 April 2014.

Stamp taxes and other capital duties

Stamp duty of 0.5% applies to the transfer (but not issue) of shares.

Exemptions from UK corporate tax

The UK has a dividend exemption (effective from 1 July 2009), with the majority of dividends being exempt from UK tax.

Capital gains arising on the disposal of shares in a trading company where the UK company has owned at least 10% of the share capital for 12 months out of the last 24 months are exempt.

Corporate information

Anti avoidance legislation

The UK has transfer pricing rules, that require all related party transactions to be reflected at arm's length for tax purposes. In addition, the UK has the worldwide debt cap legislation that seeks to restrict interest deductibility where the level of debt in the UK entity is deemed to be excessive compared to the level of worldwide debt.

The UK has complex CFC legislation, which is in need of modernisation. A new CFC regime will come into effect from 1 January 2013. This is expected to make the UK more attractive for international trade as it is more modern although it is not necessarily any more straightforward.

It is possible for companies to obtain advanced rulings from the UK tax authorities on the tax treatment of certain matters. These are not compulsory and can be costly.

VAT

The standard rate of VAT is 20%. A reduced rate of 5% applies to domestic fuel and power, energy saving products and certain residential alterations. In addition, books, newspapers, food, residential new builds and transport are subject to a zero-rate.

Withholding taxes (WHT)

The UK does not impose WHT on dividends paid by a UK company.

The domestic rate of WHT on interest payable to non residents is 20%. There is no WHT on interest payable to companies in EU countries where either the payer or payee holds directly or indirectly at least 25% of the share capital in the other. In addition, there are reduced WHT rates with treaty countries.

The domestic rate of WHT on royalty payments to non residents is 20%.There is no WHT on royalty payments to companies in EU countries where either the payer or payee holds directly or indirectly at least 25% of the share capital in the other. In addition, there are reduced WHT rates with treaty countries.

The complexity of the UK tax regime remains a deterrent to many groups although the commercial benefits of locating in the UK are still significant, especially for US multinationals.

The UK is good for financial services and construction. Examples include Barclays and Bovis.

Double tax agreements

The UK has more than 120 agreements currently in effect.

IP regime

Legal

The UK has a robust legal framework for the protection of IP including patents, copyrights, trademarks, service marks and industrial designs and models.

IP rules

The UK IP regime applies to broadly all intangible assets (including goodwill) whether acquired or internally generated post March 2002. Under the regime, amortisation is deductible in line with the accounts or the taxpayer can elect for relief at 4% per annum.

Gains on the disposal of IP assets are taxed at the headline tax rate and such gains may be deferred, where the proceeds from sale are re-invested in qualifying assets.

A new patent box regime is to be introduced with effect from 1 April 2013. Under the new regime, qualifying patent income will be subject to a rate of 10%, although it will be phased in over five years, with 60% of the benefit applying in 2013 and the full benefit applying from 2017 onwards. Qualifying patents under the regime are existing and new patents granted by the UK and European patent office. The patent box is not restricted to owners of patents but also those who hold the exclusive licence over patented technologies. Qualifying income includes income from the sale of a patented product or a product containing a patented item, royalties and licence fees from rights granted over patented technology, income from the realisation of a patent and income from a patent infringement.

R&D rules

The UK R&D rules offer enhanced deductions and credits for qualifying expenditure, depending on the size of the group.

For small and medium enterprises (SME), a 200% deduction is available for qualifying R&D expenditure. Other companies benefit from an enhanced deduction of 130% deduction on expenditure.

In addition, loss making SMEs incurring qualifying R&D expenditure can claim a tax repayment by surrendering tax credits.

Qualifying capital R&D expenditure is wholly allowable as a tax deduction by way of a 100% capital allowance in the year it is incurred.

From 1 April 2013, it is anticipated that large enterprises will benefit from an above the line credit rather than an enhanced deduction to encourage investment in R&D activities in the UK although this is still under consultation with the UK tax authorities.

Expatriate issues

Income tax

Individuals are taxed on all remuneration (including benefits in kind) for duties performed in the UK, on a three tier scale 20%, 40% and 50%, although the 50% rate only applies to taxable income in excess of £150,000 (c.€175,000). From April 2013 the higher rate band is to be reduced to 45%.

There are numerous deductions and exemptions, in particular, taxable income is determined after deducting a personal tax free allowance of £8,105 (c.€10,100) and qualifying pension contributions. Most benefits in kind are taxable.

Social security contributions

Employee social security contributions are payable at 12%, with employers required to pay an additional 13.8% employer contributions on salaries.

Expatriate rules

Assuming there is no intention to stay in the UK, expatriates will only be taxable on their UK earnings together with any investment income or gains arising in or remitted to the UK (subject to the payment of £30,000/£50,000 (c.€37,000/c.€62,000) depending on how long the expatriate has been resident in the UK).

For short term employment there are generous deductions for personal expenses for individuals on short term secondments (for up to two tax years).

Corporate set up

Cost

Company set up costs start at €500 and can be completed in a week.

> The UK tax authorities have committed to simplifying the R&D regime and introducing a patent box regime. Both these measures will increase the UK's draw as an IP holding company location.

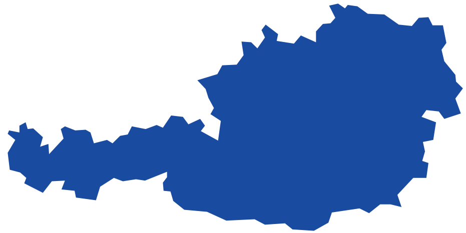
Corporate entities

The most frequently used entity is the limited company, which has no minimum share capital and only requires one shareholder and one director. The LLP, a limited liability partnership is becoming increasingly more widely used.

Other territory profiles

The 10 key holding company locations are not exclusive and this section summarises the key issues to consider in various other European territories.

Austria



Holding company

- **Corporation tax rate**
  25%.
- **Participation exemption on dividends?**
  Yes.
- **Participation exemption on capital gains?**
  Yes, gains are exempt if the subsidiary is not Austrian (conditions are 10% holding for more than 12 months).
- **Interest deductibility?**
  Yes, subject to transfer pricing rules.
- **Transfer pricing regime?**
  Yes, transactions between related parties must be on an arm's length basis.
- **Controlled foreign company regime?**
  No.
- **Local tax on disposal of shares by foreign shareholder?**
  Yes, 25% if the shareholder has held at least 1% of the total share capital in the last five years, although double taxation agreements do not usually grant Austria with any taxing rights.
- **Withholding tax on dividends?**
  Yes, 25% but reduced to 0% under EU parent subsidiary directive and also may be reduced under treaties.
- **Withholding tax on interest?**
  No, unless interest paid on debt secured on Austrian property.
- **Number of double taxation agreements**
  80+.
- **Standard VAT rate**
  20%.

IP holding company

- **IP regime?**
  No.
- **Tax rate on IP income**
  No special regime. Taxed at usual corporate tax rate of 25%.

Other comments

- **Local currency**
  Euro.
- **Income tax rate**
  Progressive, up to 50% (in addition to high social security costs although these are capped at earnings of €59,220 per annum).
- **Expatriate regime**
  An Austrian tax charge arises on employment income derived from duties performed in Austria. There are specific expenses deductible from this income to the extent that the individual is employed in Austria for less than five years and has not been resident in Austria in the last 10 years.

Czech Republic

Holding company

- **Corporation tax rate**
  19%.
- **Participation exemption on dividends?**
  Yes.
- **Participation exemption on capital gains?**
  Yes.
- **Interest deductibility?**
  Yes, subject to thin capitalisation rules.
- **Transfer pricing regime?**
  Yes, transactions between related parties must be on an arm's length basis.
- **Controlled foreign company regime?**
  No.
- **Local tax on disposal of shares by foreign shareholder?**
  Yes, 19% on capital gains realised unless reduced under the relevant treaties.
- **Withholding tax on dividends?**
  Yes, 15% but reduced to 0% under EU parent subsidiary directive and also may be reduced under treaties.
- **Withholding tax on interest?**
  Yes, 15% but reduced to 0% under EU interest and royalties directive and also may be reduced under treaties.
- **Number of double taxation agreements**
  80+.
- **Standard VAT rate**
  20%.

IP holding company

- **IP regime?**
  No.
- **Tax rate on IP income**
  No special regime. Taxed at usual corporate tax rate of 19%.

Other comments

- **Local currency**
  Czech Crown.
- **Income tax rate**
  Flat rate of 15%.
- **Expatriate regime**
  A Czech tax charge arises on employment income derived from duties performed in the Czech Republic based on the gross salary plus social and health insurance paid by the employer. Assessable employment income includes all wages, salaries, overtime pay, bonuses, gratuities, perquisites, benefits etc including the reimbursement of travel expenses over a certain level. There are no specific concessions for expatriates.

Denmark

Holding company

- **Corporation tax rate**
  25%.
- **Participation exemption on dividends?**
  Yes, providing there is a minimum 10% shareholding or it is received from another group company.
- **Participation exemption on capital gains?**
  Yes, providing there is a minimum 10% shareholding or it is received from another group company.
- **Interest deductibility?**
  Yes, subject to thin capitalisation and anti-abuse rules.
- **Transfer pricing regime?**
  Yes, transactions between related parties must be on an arm's length basis.
- **Controlled foreign company regime?**
  Yes, for controlled subsidiaries.
- **Local tax on disposal of shares by foreign shareholder?**
  No, generally not.
- **Withholding tax on dividends?**
  Yes, 27% but reduced to 15% if certain criteria are met, 0% under the EU parent subsidiary directive and also may be reduced under treaties.
- **Withholding tax on interest?**
  Yes, 25% but reduced under EU interest and royalties directive and also may be reduced under treaties.
- **Number of double taxation agreements**
  75+.
- **Standard VAT rate**
  25%.

IP holding company

- **IP regime?**
  IP amortisation is tax deductible. Generally intangible assets are amortised over seven years (straight-line basis and determined on a cash basis). Specific rules apply if the protection time of knowhow, patents and copyrights is shorter than seven years. Alternatively, knowhow and patents are fully tax-deductible in the year of acquisition according to the owner's choice.
- **Tax rate on IP income**
  No special regime. Taxed at usual corporate tax rate of 25%.

Other comments

- **Local currency**
  Danish Kroner.
- **Income tax rate**
  Progressive up to 51.5%.
- **Expatriate regime**
  Foreign key employees working temporarily in Denmark, who have not been subject to Danish taxation (on certain income) in the previous 10 years, may choose to be taxed at a flat rate of 26% of their gross salary plus a labour market contribution of 8%, resulting in a total tax of approximately 32% of their gross salary (for up to 60 months). Certain requirements must be met in order to qualify for the expat regime.

Estonia

Holding company

- **Corporation tax rate**
  21% (to be reduced to 20% from 1 January 2015). Companies do not pay any taxes on earned profits until these are distributed as dividends or other forms of profit distributions, allowing companies established in Estonia to reinvest their profits in other entities without being subject to tax in Estonia.
- **Participation exemption on dividends?**
  Yes.
- **Participation exemption on capital gains?**
  No.
- **Interest deductibility?**
  Yes, there are no thin capitalisation rules.
- **Transfer pricing regime?**
  Yes, transactions between related parties must be on an arm's length basis.
- **Controlled foreign company regime?**
  No, however anti-tax haven rules apply for certain transactions, treating these as deemed profit distributions.
- **Local tax on disposal of shares by foreign shareholder?**
  No, unless Estonian company is deemed to be a real estate company.
- **Withholding tax on dividends?**
  No.
- **Withholding tax on interest?**
  No, unless the interest paid significantly exceeds an arm's length rate, and then withholding tax at a rate of 21% applies to the part of the interest exceeding arm's length.
- **Number of double taxation agreements**
  40+.
- **Standard VAT rate**
  20%.

IP holding company

- **IP regime?**
  There are no special incentives for IP.
- **Tax rate on IP income**
  No special regime. Taxed at usual corporate tax rate of 21%.

Other comments

- **Local currency**
  Euro.
- **Income tax rate**
  Flat rate of 21% (20% from January 2015).
- **Expatriate regime**
  No special favourable tax regime for expatriates.

Finland

Holding company

- **Corporation tax rate**
  24.5%.
- **Participation exemption on dividends?**
  Yes.
- **Participation exemption on capital gains?**
  Yes, providing there has been a holding period of at least one year.
- **Interest deductibility?**
  Yes, although it is currently anticipated that thin capitalisation rules are to be introduced in 2012.
- **Transfer pricing regime?**
  Yes, transactions between related parties must be on an arm's length basis (although there are no documentation requirement for domestic transactions).
- **Controlled foreign company regime?**
  Yes, however in general not applicable to EU resident companies.
- **Local tax on disposal of shares by foreign shareholder?**
  No, unless the shares being sold are that of a company carrying on real estate activities.
- **Withholding tax on dividends?**
  Yes, 24.5% although this rate may be reduced to 0% under EU parent subsidiary directive and also may be reduced under treaties.
- **Withholding tax on interest?**
  No.
- **Number of double taxation agreements**
  60+.
- **Standard VAT rate**
  23% (24% from January 2013).

IP holding company

- **IP regime?**
  No special regime. Amortisation is tax deductible for a maximum of 10 years based on economic lifetime of the item.
- **Tax rate on IP income**
  Taxed at usual corporate tax rate of 24.5%.

Other comments

- **Local currency**
  Euro.
- **Income tax rate**
  Progressive up to 50%.
- **Expatriate regime**
  A Finnish tax charge arises on employment income derived from duties performed in Finland. Assessable employment income includes all wages, salaries, overtime pay, bonuses, gratuities, perquisites, benefits etc. There are no specific expatriate concessions in Finland.

France

Holding company

- **Corporation tax rate**
  33.33% (plus social surcharge of 3.3% on the corporate tax exceeding €763,000 in a year and an additional temporary surcharge of 5% where turnover exceeds €250 million until 30 December 2013).
- **Participation exemption on dividends?**
  Yes, dividends received are 95% exempt (conditions are a minimum 5% holding for more than 24 months).
- **Participation exemption on capital gains?**
  Yes, gains are 90% exempt (conditions are a minimum 5% holding for more than 24 months).
- **Interest deductibility?**
  Yes, subject to thin capitalisation substance/ control test and anti-abuse rules.
- **Transfer pricing regime?**
  Yes, transactions between related parties must be on an arm's length basis.
- **Controlled foreign company regime?**
  Yes, 50% shareholding for subsidiaries. Safe harbour clauses exist for both EU and non-EU countries.
- **Local tax on disposal of shares by foreign shareholder?**
  Yes, 19% capital gains realised on a substantial participation (25%), unless reduced under the relevant treaties. Raised to 50% when realised by residents of non-cooperative states, regardless of participation level.
- **Withholding tax on dividends?**
  Yes, 30% but reduced to 0% under EU interest and royalties directive and also may be reduced under treaties.
- **Withholding tax on interest?**
  No, unless interest paid on some specific debt instruments issued prior to 31 March 2010.
- **Number of double taxation agreements**
  120+.
- **Standard VAT rate**
  19.6%.

IP holding company

- **IP regime?**
  Yes, a tax deduction is available on cost or purchase price. Rates range from 100% in the year of acquisition (for R&D costs) to 20% over five years (for most patents). Trademarks are not amortised in most cases.
- **Tax rate on IP income**
  15% on royalties from patents, deemed patent licensing and sales of such patents, although anti-abuse rules can apply between related companies.

Other comments

- **Local currency**
  Euro.
- **Income tax rate**
  Progressive, up to 41%.
- **Expatriate regime**
  A French tax charge arises on income derived from duties performed in France. A tax exemption on the allowances paid to employees seconded to France can be implemented if certain criteria are met.

Germany

Holding company

- **Corporation tax rate**
  28-33% (this includes corporate and trade tax, which depends on the municipality).
- **Participation exemption on dividends?**
  Yes, dividends received are 95% exempt (currently no shareholding conditions to be met although this is intended to be amended to a 10% minimum shareholding).
- **Participation exemption on capital gains?**
  Yes, gains are 95% exempt (currently no shareholding conditions to be met although this is intended to be amended to a 10% minimum shareholding).
- **Interest deductibility?**
  Yes, subject to interest ceiling rules.
- **Transfer pricing regime?**
  Yes, transactions between related parties must be on an arm's length basis.
- **Controlled foreign company regime?**
  Yes, passive foreign income is taxed if that income was subject to tax at an effective rate of less than 25%. Exemptions apply for EU based subsidiaries.
- **Local tax on disposal of shares by foreign shareholder?**
  No, provided there is a treaty.
- **Withholding tax on dividends?**
  Yes, 26.375% but this is reduced to 15.825% if the shareholder is a corporation. The rate may be reduced to 0% under EU parent subsidiary directive and may also be reduced under treaties.
- **Withholding tax on interest?**
  No (except on interest from German banks/ financial institutions).
- **Number of double taxation agreements**
  100+.
- **Standard VAT rate**
  19%.

IP holding company

- **IP regime?**
  Yes, applies to a variety of IP, with tax deductible amortisation based on the purchase price of the IP. The rate depends on the type of IP, but is broadly available over 15 years.
- **Tax rate on IP income**
  No special regime. Taxed at usual corporate tax rate 30%.

Other comments

- **Local currency**
  Euro.
- **Income tax rate**
  Progressive, up to 45%.
- **Expatriate regime**
  Individual taxpayers are allowed to claim all expenses directly incurred with their incomes from employment. There is a tax free lump sum for employees at an amount of €1,000. Thereafter, various other deductions and allowances apply on taxable income from employment. The German income tax law does not provide for special deductions or tax free expatriate premiums.

Greece

Holding company

- **Corporation tax rate**
  20%.
- **Participation exemption on dividends?**
  Yes, if paid from an EU company and there is a minimum shareholding of 10% for at least two years and a tax free reserve is formed with the untaxed dividend income.
- **Participation exemption on capital gains?**
  No.
- **Interest deductibility?**
  Yes, subject to transfer pricing and thin capitalisation rules.
- **Transfer pricing regime?**
  Yes, transactions between related parties must be on an arm's length basis.
- **Controlled foreign company regime?**
  Yes, quasi rules may apply for EU transparent entities. In addition transactions with 'black listed' countries may not be deductible.
- **Local tax on disposal of shares by foreign shareholder?**
  No, provided there is a treaty.
- **Withholding tax on dividends?**
  Yes, 25% but this may be reduced to 0% under EU parent subsidiary directive and also may be reduced under treaties.
- **Withholding tax on interest?**
  Yes, 40% but reduced to 5% under EU interest and royalties directive (until 30 June 2013 and then 0% thereafter) and also may be reduced under treaties.
- **Number of double taxation agreements**
  50+.
- **Standard VAT rate**
  23%.

IP holding company

- **IP regime?**
  Yes, applies to a variety of IP including patents, trademarks and designs. A tax deduction for amortisation is available on the historic cost basis and a company can choose to take a deduction either in the year of acquisition or spread over five years.
- **Tax rate on IP income**
  No special regime. Taxed at usual corporate tax rate of 20%.

Other comments

- **Local currency**
  Euro.
- **Income tax rate**
  Progressive up to 45%.
- **Expatriate regime**
  A Greek tax charge arises on employment income derived from duties performed in Greece. Assessable employment income includes all wages, salaries, overtime pay, bonuses, gratuities, perquisites, benefits etc. There is also a requirement on the expatriate's employer to deduct Greek payroll withholding tax from the assessable employment income. There are no specific expatriate concessions in Greece.

Italy

Holding company

- **Corporation tax rate**
  27.5% (plus regional tax, 3.9%-4.82%).
- **Participation exemption on dividends?**
  Yes, dividends received are 95% exempt (no shareholding conditions to be met) unless received from 'black list' countries (broadly tax havens).

  Full taxation in the case of shares 'held for trading' by IFRS/IAS adopters.
- **Participation exemption on capital gains?**
  Yes, gains are 95% exempt. Conditions include the shares being held for more than 12 months and the company invested in has an operating business activity and was resident in a 'white list' country for the last three tax years.
- **Interest deductibility?**
  Yes, subject to certain limitations.
- **Transfer pricing regime?**
  Yes, transactions between Italian entities and related non-resident parties must be on an arm's length basis.
- **Controlled foreign company regime?**
  Yes, on a country basis (tax havens and preferential tax regime) and transaction basis (other countries with reference to passive income and lower effective tax rate).
- **Local tax on disposal of shares by foreign shareholder?**
  Yes, 20% capital gain tax in case of non-qualified participations although exemption generally applies under tax treaties.
- **Withholding tax on dividends?**
  Yes, 20% but reduced to 1.375% if paid to companies resident in the European Economic Area, or to 0% under the EU parent subsidiary directive.
- **Withholding tax on interest?**
  Yes, 20% but the rate may be reduced to 0% under the EU interest and royalties directive.
- **Number of double taxation agreements**
  85+.
- **Standard VAT rate**
  21%.

IP holding company

- **IP regime?**
  Yes, trademarks and goodwill may be depreciated up to one eighteenth each tax year. Patents and other IP may be depreciated by 50%.
- **Tax rate on IP income**
  No specific regime. Taxed at the usual corporation tax rate of 27.5%.

Other comments

- **Local currency**
  Euro.
- **Income tax rate (for individuals)**
  Progressive, up to 43% plus local surcharges. An additional surcharge of 3% applies to the income in excess of €300,000.
- **Expatriate regime**
  No specific concessions for expatriates. Income includes all amounts paid or accrued in a calendar year and paid by 12 January of the following calendar year as salary, wages, commissions, director's fees, bonuses and taxable benefits.

Latvia

Holding company

- **Corporation tax rate**
  15%.
- **Participation exemption on dividends?**
  No.
- **Participation exemption on capital gains?**
  No.
- **Interest deductibility?**
  Yes, subject to thin capitalisation rules.
- **Transfer pricing regime?**
  No formal transfer pricing documentation requirements, but an arm's length principle is provided for. Transfer pricing regulations requiring specific documentation are to come into force in 2013.
- **Controlled foreign company regime?**
  No.
- **Local tax on disposal of shares by foreign shareholder?**
  No, unless real estate comprises of more than 50% of a company's total assets during the year of disposal or in previous year, then a 2% withholding tax applies.
- **Withholding tax on dividends?**
  Yes, 10% but may be reduced to 0% under EU parent subsidiary directive and also may be reduced under relevant treaties.
- **Withholding tax on interest?**
  Yes, 10% but may be reduced under the relevant treaties.
- **Number of double taxation agreements**
  50+.
- **Standard VAT rate**
  21%.

IP holding company

- **IP regime?**
  Yes, applies to a variety of IP including trademarks, design rights and copyright.
- **Tax rate on IP income**
  Payments for copyrights, neighbouring rights and royalties are taxed at the normal corporate tax rate of 15%, with other IP types taxed at a rate of 5%.

Other comments

- **Local currency**
  Latvian lat.
- **Income tax rate**
  Flat rate of 25%.
- **Expatriate regime**
  There is no special expatriate tax regime and for tax purposes they are treated as residents.

Lithuania

Holding company

- **Corporation tax rate**
  15%.
- **Participation exemption on dividends?**
  Yes, providing dividends are received from EEA entities or entities established in a country which Lithuania has a double taxation agreement in place and providing there is a minimum 10% shareholding for at least 12 successive months.
- **Participation exemption on capital gains?**
  Yes, providing the shares of the company being disposed of is resident in the EEA or in another country which Lithuania has a relevant double taxation agreement with and at least 25% of the shares are held for not less than two years.
- **Interest deductibility?**
  Yes, subject to thin capitalisation rules. The maximum permissible related-party debt:equity ratio is 4:1.
- **Transfer pricing regime?**
  Yes, transactions between related parties must be on an arm's length basis.
- **Controlled foreign company regime?**
  Yes.
- **Local tax on disposal of shares by foreign shareholder?**
  No.
- **Withholding tax on dividends?**
  No, provided the recipient has held not less than 10% of voting shares for a continuous period of at least 12 successive months with the exception of black listed companies.
- **Withholding tax on interest?**
  Yes, 10% but reduced to 0% when paid to an EEA registered entity or reduced in the relevant treaties.
- **Number of double taxation agreements**
  40+.
- **Standard VAT rate**
  21%.

IP holding company

- **IP regime?**
  No special IP tax regime.
- **Tax rate on IP income**
  Taxed at the usual corporate tax rate of 15%. 300% of qualifying R&D costs are deductible in the year they were incurred.

Other comments

- **Local currency**
  Litas.
- **Income tax rate**
  Flat rate of 15% (20% on distributed profits).
- **Expatriate regime**
  Resident individuals are taxed on their worldwide income. Non-residents are subject to Lithuanian tax on income originating in Lithuania. Generally, income or compensations received by an expatriate for both business and private purposes such as cost of living, relocation expenses, settling expenses, schooling allowance are added to the income and taxed accordingly.

Poland

Holding company

- **Corporation tax rate**
  19%.
- **Participation exemption on dividends?**
  Yes, provided there has been a minimum 10% holding for more than 24 months.
- **Participation exemption on capital gains?**
  No.
- **Interest deductibility?**
  Yes, subject to transfer pricing and thin capitalisation rules.
- **Transfer pricing regime?**
  Yes, transactions must be on an arm's length basis.
- **Controlled foreign company regime?**
  No.
- **Local tax on disposal of shares by foreign shareholder?**
  Generally no. Under some double tax agreements there is an applicable 'real estate clause'.
- **Withholding tax on dividends?**
  Yes, 19% but may be reduced to 0% under EU parent subsidiary directive or to a rate provided by the relevant double tax agreement.
- **Withholding tax on interest?**
  Yes, 20% but may be reduced to 5% under the EU interest and royalties directive (until 30 June 2013, 0% thereafter) or to rate provided by relevant double tax agreement.
- **Number of double taxation agreements**
  80+.
- **Standard VAT rate**
  23%.

IP holding company

- **IP regime?**
  Yes, applies to most IP excluding knowhow acquired as an in-kind contribution. A tax deduction for amortisation is available on the purchase price of the IP and the minimum period of amortisation is 60 months.
- **Tax rate on IP income**
  No special rate. Taxed at usual corporate tax rate 19%.

Other comments

- **Local currency**
  Polish Zloty.
- **Income tax rate**
  Progressive – up to 32%.
- **Expatriate regime**
  A Polish tax charge arises on employment income derived from duties performed in Poland. Assessable employment income includes all wages, salaries, overtime pay, bonuses, gratuities, benefits in kind etc. There is no specific tax exemption for expatriates.

Portugal

Holding company

- **Corporation tax rate**
  25% plus local tax (up to 1.5%) and a surcharge for profits in excess of €1.5 million (maximum total tax is 31.5%)
- **Participation exemption on dividends?**
  Yes, provided there has been a minimum 10% holding for at least one year.
- **Participation exemption on capital gains?**
  Yes.
- **Interest deductibility?**
  Yes, subject to transfer pricing and thin capitalisation rules.
- **Transfer pricing regime?**
  Yes, where transactions are not on an arm's length basis then the tax authority may require adjustments.
- **Controlled foreign company regime?**
  Yes in respect of subsidiaries resident in black listed territories.
- **Local tax on disposal of shares by foreign shareholder?**
  No.
- **Withholding tax on dividends?**
  Yes, 25% but may be reduced to 0% under EU parent subsidiary directive or to rate provided by relevant double tax agreement.
- **Withholding tax on interest?**
  Yes, 25% but may be reduced to 5% under EU interest and royalties directive (until 30 June 2013, 0% thereafter) or to rate provided by relevant double tax agreement.
- **VAT rate**
  23%.
- **Number of double taxation agreements**
  65+.
- **Standard VAT rate**
  23%.

IP holding company

- **IP regime?**
  Yes, applies to most IP excluding knowhow acquired as in-kind contribution. A tax deduction for amortisation is available on the purchase price of the IP over its useful life.
- **Tax rate on IP income**
  No special rate. Taxed at usual corporate tax rate of 31.5%.

Other comments

- **Local currency**
  Euro.
- **Income tax rate**
  Progressive up to 46.5%.
- **Expatriate regime**
  As of 2011, there is a beneficial expat regime for individuals that have not been resident in Portugal the past five years. Under this regime, employment and self-employment income will be taxed at the flat rate of 20%, withheld at source. In addition, expats will not be subject to tax on overseas income, providing that income is subject to tax (even if effectively taxed at 0%) and the income was not earned in a black listed country.

Russia

Holding company

- **Corporation tax rate**
  20%.
- **Participation exemption on dividends?**
  Yes, provided that there is a minimum 50% holding for at least one year and the entity is not resident in a tax haven.
- **Participation exemption on capital gains?**
  Yes, provided that the shares were purchased after 1 January 2011 and are held for more than five years.
- **Interest deductibility?**
  Yes, subject to transfer pricing and thin capitalisation rules.
- **Transfer pricing regime?**
  Yes. Controlled transactions exceeding certain thresholds should be declared. Documentation justifying prices applied should be available upon request of tax authorities. If prices are proved not to be at arm-length as a result of a tax audit, assessment can be made and fines can be charged.
- **Controlled foreign company regime?**
  No.
- **Local tax on disposal of shares by foreign shareholder?**
  Yes, 20%, where more than half the assets of the Russian company consist of real estate situated in Russia.
- **Withholding tax on dividends?**
  15%, may be reduced under treaties.
- **Withholding tax on interest?**
  20%, may be reduced under treaties.
- **Number of double taxation agreements**
  75+.
- **Standard VAT rate**
  18%.

IP holding company

- **IP regime?**
  Yes, applies to various types of IP (excludes goodwill and customer relationships held for over 12 months). Amortisation is available on the actual cost of the IP, and is amortised over the useful life of the IP.
- **Tax rate on IP income**
  No special rate. Taxed at the usual corporation tax rate of 20%.

Other comments

- **Local currency**
  Russian Rouble.
- **Income tax rate**
  Flat rate of 13% for Russian residents, 30% for non-residents on Russian source income. Foreign highly qualified specialists (annual salary of more than RUR 2 mllion) are subject to 13% rate.
- **Expatriate regime**
  All forms of remuneration received in respect of the performance of employment duties are treated as employment income. Where income has been subject to tax in Russia and also a foreign jurisdiction, relief can be granted by the Russian tax authorities where provided for in the relevant double taxation agreement.

Sweden

Holding company

- **Corporation tax rate**
  26.3%.
- **Participation exemption on dividends?**
  Yes, provided that there is a minimum 10% holding for at least 12 months.
- **Participation exemption on capital gains?**
  Yes, provided that there is a minimum of 10% holding for at least 12 months.
- **Interest deductibility?**
  Yes, subject to transfer pricing regime. Certain limitations may apply.
- **Transfer pricing regime?**
  Yes, transactions must be on an arm's length basis.
- **Controlled foreign company regime?**
  Yes, rules apply where the foreign entity is deemed to be subject to an effective tax rate of less than 14.5%.
- **Local tax on disposal of shares by foreign shareholder?**
  No.
- **Withholding tax on dividends?**
  30%, may be reduced to 0% under EU parent subsidiary directive and also under treaties.
- **Withholding tax on interest?**
  No.
- **Number of double taxation agreements**
  80+.
- **Standard VAT rate**
  25%.

IP holding company

- **IP regime?**
  Yes, applies to all IP. A tax deduction for amortisation is available on the historic (acquisition) value of the IP, and the maximum rate of deduction is 30%.
- **Tax rate on IP income**
  No special rate of tax. Taxed at the usual corporation tax rate of 26.3%.

Other comments

- **Local currency**
  Swedish Krona.
- **Income tax rate**
  Progressive, up to 57%.
- **Expatriate regime**
  Generally all earnings are taxed as income from employment provided the income is not considered business income or income from capital. All earnings from an employer to an employee are taxable as income from employment, ie wages, fees, sickness allowances, severance pay as well as benefits in kind. Under certain conditions, foreign employees working in Sweden for limited periods may qualify for a reduction of the income tax liability on their earnings. The reduction amounts to 25% and is applicable for only the first three years as long as the employer/employee applies for a ruling within three months after the work started in Sweden.

Turkey

Holding company

- **Corporation tax rate**
  20%.
- **Participation exemption on dividends?**
  Yes, dividends received are 100% exempt and there is no minimum participation or holding period. Dividends paid by resident investment partnerships and investment funds are not subject to the exemption and are taxed at 15%.
- **Participation exemption on capital gains?**
  Yes, gains are 75% exempt providing that the shares have been held for at least two years.
- **Interest deductibility?**
  Yes, subject to transfer pricing regime. Interest paid on equity capital or hidden equity capital is non-deductible.
- **Transfer pricing regime?**
  Yes, transactions must be on an arm's length basis.
- **Controlled foreign company regime?**
  No.
- **Local tax on disposal of shares by foreign shareholder?**
  No, unless the shares are sold for more than market value. If the shares have not been held for at least two years, the sale is also subject to VAT.
- **Withholding tax on dividends?**
  15%, may be reduced under relevant treaties.
- **Withholding tax on interest?**
  Yes, 15% may be reduced under relevant treaties.
- **Number of double taxation agreements**
  75+.

IP holding company

- **IP regime?**
  Yes, applies to all IP. Where the IP owner is a natural person, the owner is not subject to income tax on the IP income, although 17% tax needs to be withheld from the payment from the corporate using the natural person's IP.
- **Tax rate on IP income**
  0% if the IP regime applies as set out above, otherwise the normal rate of corporation tax which is 20%.
- **Standard VAT rate**
  18%.

Other comments

- **Local currency**
  Turkish Lira.
- **Income tax rate**
  Progressive up to 35%
- **Expatriate regime**
  No special expat regime.

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