

Doing business in the UK – how to extract profits

When doing business in the UK, one of the most important considerations for business owners is how to extract profits from the business. When your business is international, this becomes complex. There is no single solution for every international business, so here we consider several options, including the less obvious.

Dividends

If you have a UK company, a dividend payment is an efficient way to distribute funds to the shareholders. Dividends from UK companies are usually paid gross and a corporate or individual shareholder resident overseas is not usually subject to UK taxation on the distribution.

The downside is that the distribution will be from post-UK corporation taxed profits, so you need to consider the overseas tax impact of the distribution. A UK company must have sufficient cumulative profits to make the distribution so it may not be possible in the early start-up phase if the UK company is loss-making.

No national insurance is payable on dividends to individuals, which can bring an employer cost saving. The tax liability thereon is also paid later with the year-end tax return reporting, rather than immediately, securing a cash flow timing advantage.

Salary

Salary is a common choice and it is only payable to an individual not a corporate body. The salary of a person working in the UK is subject to UK income tax and national insurance albeit with certain exemptions.

Employer national insurance must also be brought into your salary costings. Payroll taxes are paid in real time so there is no cash flow timing advantage for the employer nor employee. All UK salary costs are deductible for tax purposes, and given the main UK corporation tax rate, it may be more cost-effective to pay a salary to an individual than a dividend.

The marginal rate of paying taxes in more than one jurisdiction adds another layer of complexity to standard UK domestic tax planning advice, although salary payments normally align well from a sourcing and foreign tax credit perspective.

Management service charges

If your international entity supports your UK business, for example via administrative services, the cost of those services can be expensed. Follow generally accepted transfer pricing methodologies to ensure that the charges are commercially arm's length and fully deductible for UK corporation tax purposes.

Interest payable

Finance to fund your UK operations may be difficult to raise from commercial banks so a loan from another entity or individual is a viable and flexible option. A commercial rate of interest can be charged to service the loan facility and is deductible for corporation tax purposes within certain limits. Such payments do not attract national insurance if made to an individual.

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Rent payable

If there is UK-sited commercial land or property that is owned elsewhere within the business group or personally, renting the asset to the UK business and charging a commercial rent as a method of profit extraction is an option and is UK tax-deductible. Such payments do not attract national insurance if made to an individual.

Overall considerations

Consider your method of UK profit extraction alongside your international tax filings and marginal global tax rates rather than in isolation. It can flex to ensure that an individual's UK living expenses are met tax-efficiently whilst returning profits to shareholders based in the UK or overseas. Cash flow is key, so consider the timing of when tax liabilities fall due in tandem with the amount of tax payable.

How can Moore Kingston Smith help?

Aligning your UK business methods of profit extraction with your international business is complex. For a no-obligation introductory conversation to clarify your path forwards, please contact our team.

Contact us



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