

# DESPITE ITS ECONOMIC WOES, THE UK REMAINS AN ATTRACTIVE PLACE TO DO BUSINESS



Even in these difficult economic times, there are still opportunities for Irish businesses to grow. The ongoing strength of Irish exports perfectly illustrates that point.



Pictured are Denis Harrington, Tax Partner, PwC and Anne Harvey, Tax Director, PwC

**F**or many Irish businesses, the continuing sluggishness in the domestic economy may mean that they need to look to other markets, particularly those where the economic recovery prospects look better than our own, at least in the short term. Given its proximity, the UK is often the first place for many Irish businesses to look for these opportunities.

For centuries, the UK has attracted investment from overseas businesses and has a strong trading history with the rest of the world. As our closest neighbour, it remains an important gateway for Irish companies to do business in a large and dynamic market. Despite Ireland's recent economic woes, statistics reveal that Ireland continues to be one of the UK's most important trading partners with exports to the UK amounting to €9,129m for the nine months to September 2010. Market intelligence also shows that Ireland ranks 5th in terms of the number of overseas companies involved in Greenfield investment projects into the UK between May 2005 and May 2010, only ranking behind the large capital exporting superpowers of the US, Germany, France and Japan. Our continuing importance as a trading partner with the UK is borne out by their bilateral involvement in the recent financial rescue package, with British Chancellor George Osborne justifying the loan to Ireland, a "major trading partner" of the UK, as necessary for the economic well being of the UK – and all this at a time when Britain is itself entering into a period of severe budgetary austerity.

There are many reasons why the UK provides an excellent location in which to do business for Irish companies: we share a common time zone which makes it very easy for us to interact with the UK and indeed countries around the globe; we have a common language that is widely used in the global business community, our legal systems are similar, and as a country and business community, the UK is used to working internationally. It's also a very flexible and business-minded location in which to operate. As a result, more and more overseas companies are looking to the

UK to access opportunities, both within



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the UK and as a platform for beyond - a trend that is likely to grow in the future. Another highly attractive attribute to overseas investors is that the UK has a deep pool of expertise and experience that is simply not available in many territories. Businesses going to the UK can access a wealth of knowledge immediately, whether through bringing their own employees to work in the UK to gain experience, or employing people already living in the UK to deliver experience back to their organisations in Ireland.

## UK tax reform

In recent years, the UK Labour Government faced criticism from business leaders on the shape of UK tax system which contains stringent anti-avoidance legislation. Whilst this was eventually recognised by the Government and a programme of reform launched, its lack of direction, coupled with the time the review was taking, led to a prolonged period of uncertainty which was considered unacceptable to many businesses - and led to number of large multinationals relocating their headquarters out of the UK, a significant number of which moved to Ireland (including Shire Pharmaceuticals, United Business Media and Henderson Global Investors). However, the Conservative/Lib Dem coalition Government that came to power last year has recently announced a programme of tax reform, scheduled to take place over a 5 year period, which will make the UK tax regime more business friendly. The new Government has a stated objective to make the UK

the most competitive tax regime in the G20 group of major countries, and is committed to a wide programme of consultation with business to deliver this. The first significant move on this reform was to announce a phased reduction in the corporate income tax rate to 24% (currently 28% and falling to 27% with effect from 1 April 2011). For Irish companies investing into the UK, the differential between the Irish and UK corporation tax rates has meant that the UK tax cost had represented a real burden and the moves to reduce this will be most welcome.

Recognising the importance of creating and deriving value from intellectual property (IP) assets, and the related economic activity and jobs that derive from such assets, the UK Government has also recognised that the basis of taxation of IP has a significant impact on attracting and encouraging further innovation in the UK. This follows significant developments in other EU countries including Ireland which has already introduced measures to increase attractiveness as an IP location. It is proposed to introduce a preferential regime for profits arising from patents, known as a "Patent Box" in 2013. The Government has said that such profits will attract a low rate of tax, likely to be around 10%. The Patent Box will encourage companies to locate the high-value jobs and activity associated with the development, manufacture and exploitation of patents in the UK. It will also enhance the competitiveness of the UK tax system for high-tech companies that obtain profits from patents. For companies carrying on research and development (R&D), tax credits are available on a similar basis to the Irish regime.

## What are the challenges?

The ongoing volatility in the euro/sterling exchange rate combined with the recent announcement by the Bank of England of rising inflation rates continue to mean challenging conditions for Irish companies doing business in the UK. Many economic forecasters are predicting a significant decline in the value of the euro during 2011, as the fiscal worries of countries such as Portugal and Spain continue to put pressure on the currency. Nonetheless, the demand for Irish

products and services remains high and the sheer scale of the UK market provides an excellent opportunity for Irish companies who need to find new markets for their products and services as many sectors in the Irish market have become saturated due to the decline in market conditions in Ireland.



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## How can we help?

For companies considering expanding into the UK the first steps can seem quite daunting. We have considerable experience in helping companies who wish to expand overseas and work with many types of businesses - MNCs, Irish companies, privately owned organisations, entrepreneurs, family businesses, trusts, partnerships and private individuals.

Our approach embraces many aspects of tax and business solutions from ideas to implementation across a range of services including business taxation, transactions, transfer pricing, international tax structuring, VAT, customs, tax management, tax compliance, research and development tax relief, personal tax advisory, compliance and human resource tax services.

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