

PERMANENT ESTABLISHMENT IN THE UNITED KINGDOM: BRANCH OR SUBSIDIARY?

DEFINITION OF A PERMANENT ESTABLISHMENT

An overseas company is considered to have a permanent establishment in the UK if the overseas company has a fixed place of business in the UK through which the business of the company is wholly or partially carried on.

DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

A company can either trade through a branch or set up a subsidiary through which to trade.

A branch is in reality the company itself, and the results of the branch will be incorporated into the company's own accounts filed in the company's country of residence.

Subsidiary Company

A Subsidiary Company is a separate legal entity and has limited liability, which means its liability can be separated from other companies in the group. Please read more in Form 1, under 'Private Limited Companies'.

The main reason for choosing one or the other depends on the tax position of the parent company.

TAX AND ACCOUNTING OBLIGATIONS

A branch is required to file a Profit & Loss Account of the parent company at Companies House. It is also subject to UK corporation tax on its activities in the UK.

Since the Subsidiary is a Limited Company it is only required to file its own financial statements at Companies House. It is also subject to UK corporation tax on all its activities worldwide.

REGISTRATION FORMALITIES

To set up a place of business in the UK, you must register an overseas company with Companies House within 1 month of opening for business.

The process of setting up a Subsidiary Company in the UK is the same as for a UK Limited company.

Both a branch and a subsidiary must register itself with HM Revenue & Customs and comply with UK reporting obligations to Companies House.

STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

If a branch is unsuccessful, it may be closed with no formal notice.

If a subsidiary is unsuccessful, a formal closure procedure is required which may take six months or longer.