Institution **CIOT - CTA**
Course **APS Taxation of Larger Comps**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID [redacted]

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**4047**	**18480**	**22471**
Total	**4047**	**18480**	**22471**

Answer-to-Question-_1_

REPORT

TO: The Board of Bersea Ltd

FROM: Tax Partners LLP

DATE: 17 November 2025

SUBJECT: Expansion of the Bersea Group

INTRODUCTION

This report is prepared by Tax Partners LLP (we), in repsonse to the proposals set out in the meeting notes between Tax Partners LLP and Janice Lock, the Head of Tax of the Bersea group (BG) dated 23 October 2025.

This report is for the sole benefit of the BG and we accept no liability for any reliance placed on it by a third party.

The UK tax law applicable to this report is that at the time of writing.

EXECUTIVE SUMMARY

SECTION A: Bersea UK Ltd (BL) or BZ Inc (BZ)

The UK offers a range of incentives for R&D expenses and the creation fo a patent. The work conducted in BZ may be challenged by HMRC for diverting profits from the UK.

In addition the inital p[ostion for both BL and ZL will be one of making a loss in respect to the R&D.

As the UK offers generous relief in respects to patents we recommend BL developing the patent. In addition there is less risk of the patent income being subject to higher tax rates of 31% where HMRC to challenge the arrangement.

In addition, the tax saving icurred and the patent box regime would together make the tax payable by BL lower than the 25% main CT rate without the added risk. The losses in BL can also be used to reduce future costs decreasing the tax bill in future years.

We note that the tax impact is materially different as the R&D credit can only be claimed where work is conducted in the UK and the Patent box regime is only applicable where the company holding the patent is in the UK.

SECTION B: Option 2

Controlled Foreign company (CFC)

EB is a non-UK resident that would be controlled by a UK resident company BG Ltd. It would be a CFC, such that the profits of EB could be taxable on BG Ltd where caught by the CFC avoidance rules.

The rules aim to catch UK profits that have been artificalky diverted from the UK into lower tax countries. As EB is in a 15% tax rate country there is a risk here. However, entity level exemptions apply to exempt teh profits from being caught by the CFC rules.

Controlled and Mangement

Non UK resident companies are resident in the UK where they are centrally managed and controlled in the UK. This will catch EB where the strategy and key decisions relating to EB are made in the UK.

Care should taken to maintain the control and management function in Estmark else EB would be dual resident subject to tax in UK as well as Estmark.

Transfer pricing (TP)

As BL will be making the IP know-how available to EB for production, it the royalty income should be based on an arm's length rate.

Where two connected companies enter into arrnagements where the terms do not mirror that which third parties would agree to and a tax advantage arises, there is a risk of a transfer pricing adjustment.

EB and BL are conntected as they are controlled by the same parent company. Where the royalty payments are in excess of an arm's length rate the Estmark tax authority could challenge it and where the payments are below an arm's length rate, HMRC could challenge it.

Withholding tax

Estmark has a witholdoing tax oof 10% on the royality payments to BL.

We note that the double tax treaty as per the OECD does not require a witholding tax rate. As a result we recommend EB applying to its tax authority to apply the treaty witholding tax rate of 0%.

Nonetheless in the UK HMRC will give a double tax credit for the tax suffered on the royalty payment from EB. The credit will be the lower of the overseas tax charged and the UK CT due on the same profits. The lower value will be the 10% charge in Estmark as such full double tax relief will be obtained.

Licensing model (LM)

Where the LM is used the net profits to the UK will be £40 million, net the costs to BL it will be a loss postion of £20 million per year with an accumulative loss of £100 million after 5 years (AP4).

Where the intergated model is used a net profit of £120 million arises in EB. After five years the post tax postion of the profits in EB will be £510 million. This net the £300 million cumulative development costs incurred by BL will be £210 million (£510 million - 300 million).

The intergated model leaves BL in a profit postion compared to the licensing business model.

The LM produces losses and whilst these losses can be used on BL's profits of £80 million expected from 31 Decemeber 2028 in line with the capped explained in section A.

The tax benefit of the cumulative £100 million losses under the LM route is £25 million of tax savings (£100 million x 25%). However under the intergrated model the BG group can obtain profits of £510 million tax free via dividend which is a greater amount compared to the profits saved under the LM.

We recommend using the intergrated model as it provides a greater return on investment. In addition it aligns with the commercial objective of entering a profitable market.

SECTION C: COMPLIANCE

We note that once EB has been acquired the BG's revenue will be in excess of 750 million. There are a few compliance point to be aware of.

Multinational top up tax

Where any of BG's subsidiaries operate in a country with an effcetive tax rate below 15% a top up tax will be applied and the top up tax will be payable in the UK.

The BG group will come into charge when it has exceed the 750 million EURO threshold for at least 2 years out of the previous 4 years. This is something to be aware of and we are happy to support any planning required ahead of time.

Transfer Pricing Documenation

In line with the Double tax treaties, the BG group is required to produce a master file and local files for BL, EB and BZ.

The masterfile should be a high level of the groups functions,activities and locations. The local files should be more detailed on each entity outlining its value chain, the relevant intercompany transactions and the applicable TP methodds.

As the BG is above the 750 million EURO threshold it is required to produce these files and submit them with the BG's tax returns to HMRC.

Country by vountry reporting may is also required where the high-level overview of the BG's activites in different countries are provided to HMRC. Also to be sent with the tax return.

We are happy to support with any of the document preparation.

SECTION A : OPTION 1 Bersea UK Ltd or BZ Inc

We understand that the BG are looking to enter product development of premium skincare products. This section outlines the issues involved with either Bersea UK Ltd (BL) or BZ Inc (BZ) carrying out the work.

A.1 Bersea UK Ltd

a.1.1 R&D

In the UK qualifying research and development work can obtain additional tax relief.

Staff costs related to R&D and consumable materialS that has been transformed during the R&D process qualify for the relief.

BL would recieve R&D relief under the all company regime as it is a large company for R&D purposes having in excess of 500 employees (currently at 1,530) and it has revenue in excess of 100 million EUROs currenty at £300 million.

Under the all company regime full relief is given for R&D costs and an RDEC credit of 20% of the R&D expense is added back to profits which increases income. The RDEC is then given as a credit against tax payable in the year.

Where development is undertaken in the UK the RDEC would be £20 million (AP1). This increases in come by £20 milion but also reduces BL's tax liability by the same for both production years.

To claim the R&D relief notify HMRC of an intention to claim within 6 months of the accounting period end i.e 30 June 2027. Then complete a self-assessment to HMRC within 12 months of the accounting period end.

Maintain a record of the R&D costs and the break down incase HMRC seek to enquire as to the related expenditure.

a.1.2 Patent Box

As the qualifying work relates to the creation of a patent in which BL will have active ownership of, it would have developed the patent and it would manage the patent the patent box regime would be applicable.

This regime offers additional relief for income received from the respective patent allowing it to be taxed at a reduced rate compared to the 25% UK corpration tax rate. This regime incentivises patent creation by offering tax relief. The rate of relief is a technical excerise so we have not attempted to replicate it here but we would be happy to go into further depth should BG pursue this option.

a.1.3 Amortisation

Patents are intangible fixed assets (IFA) and for BL the royalty income would be taxed as trade IFA recipets. For tax purposes the UK does not distinguish between revenue and capital for IFA's such that the cost of the Patents created could recieve tax relief by amorisation.

The capitalised costs of £150 million could amortised stright line over 5 years as you plan to do giving a deduction of £30 million per year (AP2). A 4% per year amortisation is also available but it would give a lower deduction of £6 million per year (AP2) so is not beneifical.

Nonetheless amortisation provides additional tax relief of £37,500,000 per year (AP2).

A.2 BZ Inc

Local advice would have to be sought on whether Zevmark offers R&D relief. On the assumption that the BZ would only get a deduction fo costs thats a key disadvantage of BZ carrying out the development work.

a.2.1 Tax rate

BZ operates in an economic zone such that it has a 0% effective rate of tax. An advantage of this is that the subsequent patent income would be tax-free so the full amount can be paid to BL as a tax free dividend.

This is ultimately gives a higher tax saving at a 100% compared to the UK but a few issues and HMRC challenges may arise from this arrangement.

a.2.1 Diverted profits tax (DPT)

Where connected parties enter into arrangements with insuffıcent eeconomic substance that results in a tax mismatch incurring a tax advantage the DPT anti avoidance rules kick in.

As wholly owned subsidiaries of BG Ltd, BL and BZ are connected, the decision for BZ to conduct the development costs would be said to lack economic substance where the main benefit of the arrangement is to secure a tax advantage. A tax mismatch is present due to the effcetive rate of BZ being 0% compared to the UK 25% rate. A tax advantage is present in the fact that BZ would likely get a deduction for the patent creation but will not have any income subject to tax.

Where HMRC view this as an attempt of BG to divert profits from the UK, as the products ultimately hold the 'Bersea' name, a charge of 31% of the diverted profits alongside an interest charge likely at 2.5% per year would be chargeable due in the UK from the BG.

To mitigate this the BG should document the decision for BZ to carry out the work and demonstrate that the commercial considerations such as access better access to resources or skilled staff outweigh the commercial benefits. The tax beneifts being merely incidential to the commercial ones but not central to it.

As BZ already conducts work for BL is could be defendable where well documented. Note that HMRC do no discuss DPT unless BG files a DPT notice to HMRC where they suspect being in the charge.

a.2.2 Tranfer pricing

As BZ and BL are connected ensure the current payment to BZ of a £50 million service fee are at a market price that independent parties would use as HMRC may also challenge the pre existing arrangement where they suspect prfits being diverted from the UK. Document the arm's length considerations and any relevant benchmarking.

A.3 Recommendation

After the deduction of development costs and the RDEC BL would be in a loss postion which means it can carry forward the RDEC loss relief or offer it up to BG Ltd to reduce any tax payable by BG Ltd. The surrender can be of £16,200,000(AP3).

The loss in the year can also be carried forward in the UK to offset against future profits. The loss relief in future years will be limited to £ 5million + 50% of unrelieved profits (less £5 million). We recommend allocating the deduction allowance of £5,000,000 to BL in full in the tax return.

BZ also is in a loss postion which would be subject to use in local laws. None the less as it is subject to a 0% tax rate losses in BZ would be of no overall tax benefit for the group.

As the UK offers generous relief in respects to patents we recommend BL developing the patent. In addition there is less risk of the patent income being subject to higher tax rates of 31% where HMRC to challenge the arrangement.

In addition, the tax saving icurred and the patent box regime would together make the tax payable by BL lower than the 25% main CT rate without the added risk. The losses in BL can also be used to reduce future costs decreasing the tax bill in future years.

We note that the tax impact is materially different as the R&D credit can only be claimed where work is conducted in the UK and the Patent box regime is only applicable where the company holding the patent is in the UK.

SECTION B: OPTION 2

Following from the above section with BL developing the patent we understand that Ecton BV (EB) will be acquired for £100 million to manufacture the new skincare products.

The issue arising from this arrangement are outlined below.

B.1 Controlled Foreign company (CFC)

EB is a non-UK resident that would be controlled by a UK resident company BG Ltd. It would be a CFC, such that the profits of EB could be taxable on BG Ltd where caught by the CFC avoidance rules.

The rules aim to catch UK profits that have been artificalky diverted from the UK into lower tax countries. As EB is in a 15% tax rate country there is a risk here. However, entity level exemptions apply to exempt teh profits from being caught by the CFC rules.

In summary;

(a) Tax exemption - Applicable where the tax rate of the CFC produces at least 75% of the tax that would be due where UK CT at 25% applied. This is not applicable to BV due to the 15% tax rate.

(b) Low profits or low profit margin exemptions - Applicable where the CFC's profits are below £50,000 or the profit margin is within 10% of the operating margin. With EB having profits in excess of £25 million this is likely not applicable.

(c) The excldued territory exemption applies where EB would be resident in an exempt country. Estmark is not an exempt country.

(d) Accounting period exemption - Applicable for the fiest 12 months a CFC first becomes controlled by a UK entity. This will likley apply for EB for the first accounting period. Nonetheless addiitonal work is required to ensure that EB is exempted.

There are additional rules and exemptions that aim to catch CFC profits where none of the above exemption apply. However as EB has operated outside of the UK pre-acquistion it will likely not fall into any of the rules. This is a point we are happy to explore futher but we note as EB has a business premise in Estmark and its significant people function is in Estmark (simial to the arrangement with BZ) then there is limited risk here.

B.2 Controlled and Mangement

Non UK resident companies are resident in the UK where they are centrally managed and controlled in the UK. This will catch EB where the strategy and key decisions relating to EB are made in the UK.

Care should taken to maintain the control and management function in Estmark else EB would be dual resident subject to tax in UK as well as Estmark. Nonetheless where matters of residence arise the double tax treaty between the UK and Estmark would allow HMRC and the Estmark competent tax authority to mutually agree the residence of EB.

The agreement will be based on the place of EB's effective management which looks at level functions such as where the CFO sits, including incorporation of EB, where its accounts are kept. Mainly the place where the necessary decisions concerning EB are in substance made.

To mitiagate risk keep the decision making and control function outside of the UK in Estmark.

B.3 Transfer pricing (TP)

As BL will be making the IP know-how available to EB for production, it the royalty income should be based on an arm's length rate.

Where two connected companies enter into arrnagements where the terms do not mirror that which third parties would agree to and a tax advantage arises, there is a risk of a transfer pricing adjustment.

EB and BL are conntected as they are controlled by the same parent company. Where the royalty payments are in excess of an arm's length rate the Estmark tax authority could challenge it and where the payments are below an arm's length rate, HMRC could challenge it.

A challenge could result in a TP adjustment, in the UK causing more profits to be subject to higher tax rate of 25% and in Estmark reducing the potential deductions for royality payments.

To avoid this we recommend entering into a mutual agreement procedure with both HMRC and the Estmark tax authority. The double tax treaty will provide for this and will lay out the steps required in Estmark, please seek local advice for this.

In the UK we recommend submitting an informal expression of interest form to HMRC. Then after inital discussions a formal applciation which includes the relevant royalty transaction, the applicable OECD method, the covered years and any critical assumptions.

The impact and importance of this is that once an arms length rate is agreed with HMRC and the Estmark tax authority, the risk of an adjustment in both places is mitigated for the term of the agreement. We would be happy to support in setting up this process.

The OECD treaty provide for methods of determining an arm's length rate, we recommend that the considerations are documented.

B.4 Withholding tax

Estmark has a witholdoing tax oof 10% on the royality payments to BL.

We note that the double tax treaty as per the OECD does not require a witholding tax rate. As a result we recommend EB applying to its tax authority to apply the treaty witholding tax rate of 0%.

Nonetheless in the UK HMRC will give a double tax credit for the tax suffered on the royalty payment from EB. The credit will be the lower of the overseas tax charged and the UK CT due on the same profits. The lower value will be the 10% charge in Estmark as such full double tax relief will be obtained.

B.5 Additional considerations

Seek local advice on any VAT or stamp duty charges payable on the aquistion of EB's shares.

B.6 Licensing model (LM)

Under this model we understand the BL will license its know how to third parties but under the intergrated model it will use EB for production.

As the production costs are the same each year we have used a single year to represent the 5 years.

Where the LM is used the net profits to the UK will be £40 million, net the costs to BL it will be a loss postion of £20 million per year with an accumulative loss of £100 million after 5 years (AP4).

Where the intergated model is used a net profit of £120 million arises in EB. After five years the post tax postion of the profits in EB will be £510 million. This net the £300 million cumulative development costs incurred by BL will be £210 million (£510 million - 300 million).

The intergated model leaves BL in a profit postion compared to the licensing business model.

The full profits of £510 million can be paid to BG Ltd by way of divdend. EB is not required to withhold any tax on dividend and in addition the dividend will be exempt from UK in the UK.

This is because dividends recieved from wholly controlled subsidiaries are exempt from UK CT.

The LM produces losses and whilst these losses can be used on BL's profits of £80 million expected from 31 Decemeber 2028 in line with the capped explained in section A.

The tax benefit of the cumulative £100 million losses under the LM route is £25 million of tax savings (£100 million x 25%). However under the intergrated model the BG group can obtain profits of £510 million tax free via dividend which is a greater amount compared to the profits saved under the LM.

We recommend using the intergrated model as it provides a greater return on investment. In addition it aligns with the commercial objective of entering a profitable market.

SECTION C: COMPLIANCE

We note that once EB has been acquired the BG's revenue will be in excess of 750 million. There are a few compliance point to be aware of.

C.1 Multinational top up tax

Where any of BG's subsidiaries operate in a country with an effcetive tax rate below 15% a top up tax will be applied and the top up tax will be payable in the UK.

Whilst the main rate of all group companies is at least 15% the effective rate of BZ's tax is 0%, this sould be subject to an uplift.

We note that the Zevmark authority will not introduce a top up, but HMRC can impose it on the UK entites of the group.

The BG group will come into charge when it has exceed the 750 million EURO threshold for at least 2 years out of the previous 4 years. This is something to be aware of and we are happy to support any planning required ahead of time.

C.2 Transfer Pricing Documenation

In line with the Double tax treaties, the BG group is required to produce a master file and local files for BL, EB and BZ.

The masterfile should be a high level of the groups functions,activities and locations. The local files should be more detailed on each entity outlining its value chain, the relevant intercompany transactions and the applicable TP methodds.

As the BG is above the 750 million EURO threshold it is required to produce these files and submit them with the BG's tax returns to HMRC.

This is self-assessed compliance but is important to avoid HMRC enquiring into the TP policy and any related penalties for failing to comply.

Country by vountry reporting may is also required where the high-level overview of the BG's activites in different countries are provided to HMRC. Also to be sent with the tax return.

We are happy to support with any of the document preparation.

APPENDIX

AP 1: RDEC (staff cost and consumable material)

100,000,000 x 20% = 20,000,000

AP 2: Amortisation

Straight line 150,000,000/5 = 30,000,000

Amortised 4%: 150,000,000 x 4% = 6,000,000

Tax relief: 150,000,000 x25% = 37,500,000

AP 3: Tax comparison

	BL (UK)	**BZ (INC)**	
Profits before tax	80,000,000	20,000,000	
R&D	(150,000,000)	(150,000,000)	
RDEC	20,000,000		
Adjusted	(50,000,000)	(130,000,000)	
NOTE 1			

NOTE 1: R&D credit surrender £20,000,000 - (20,000,000x19%) = 16,200,000 surrender.

AP 4: Licensing model vs intergrated model

	Licensing model	Intergrated model	
Operating profits	40,000,000	120,000,000	
	(60,000,000)		
	(20,000,000)		
5 year cumulative	(100,000,000)	600,000,000	
@15%		(90,000,000)	
net		510,000,000	

BL total costs of 5 x 60,000,000 = 300,000,000