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Answer-to-Question-_1_

REPORT

From: Tax Partners LLP

To: Board of Bersea Ltd

Date: 30 October 2025

Subject: <u>Proposed new venture of Bersea Ltd</u>

INTRODUCTION

This report has been prepared by Tax Partners LLP for the Board of Bersea Ltd (Bersea) in response to the meeting between Janice Lock and Allen Linford on 23 October 2025.

This report is prepared only for use by Bersea. Tax Partners LLP takes no responsibility for any reliance placed on this report by third parties.

The tax law contained in the report applies at the time of writing.

This report addresses the tax implications of the two possible business models for the new venture, the implications of where the product development takes place, and the potential challenges by tax authorities for the new arrangements, as detailed in the meeting notes between Janice Lock and Allen Linford on 23 October 2025.

Tax Partners LLP

EXECUTIVE SUMMARY

Business model for new venture

Under the licensing model, annual after tax amounts on the licence fee revenue would be £75 million in the UK, or £100 million in Zevmark.

If the integrated model is used, annual after tax amounts on the product sales and licence fees after the transfer pricing adjustment will be £92 million (£102 million - £10 million) or £107 (£102 million + £5 million).

There will also be stamp duty of £500,000 under the integrated model.

The after tax proceeds are either £17 million or £7 million better under the integrated model, as well as giving far more profits from EBV's other trade activities. The increased compliance burdens that the acquisition will place on Bersea such as Pillar 2, controlled foreign company considerations and transfer pricing must also be factored in.

Location of product development

If the product development occured in BUL then it would get access to R&D reliefs and the patent box election, which would lead to tax savings of £45 million, and £75 million respectively.

These would not apply in Zevmark and additionally there would be further risks that would arise as a result of the IP being held in Zevmark, such as the diverted profits tax, and Pillar 2, which mean that the potential tax savings of using the integrated business model would be negated, and give rise to challenges from the tax authorities over the arrangements.

RECOMMENDATIONS

We would recommend that Bersea use the integrated business model, as this would give rise to greater tax savings, as well as providing the group with far more profits from EBV's already ongoing trading activities.

While the integrated model and acquisition of EBV will give rise to a large amount of compliance considerations, these can be mitigated by undertaking the transactions on an arm's length basis and retaining the documentation disclosing this, as well as entering into an advanced pricing agreement which will reduce your future compliance obligations in regards to transfer pricing.

Bersea will also benefit from the significant profits of Estcon BV from its already pre-existing trade and relationships.

We would also recommend that the product development take place in Bersea UK Ltd, as it will get access to reliefs such as the R&D expenditure credit, if the costs product development costs are not capitalised, as well as patent box relief, whereas if undertaken in BZ Inc, then these reliefs will no be available, and while the 0% tax rate of the economic free zone is beneficial, it also gives rise to several further tax issues, that do not exceed the potential patent box relief in the UK.

There would also be a significantly higher liklihood of HMRC challenging the new arrangements if the product development were undertaken in Zevmark than if in the UK.

We therefore recommend that R&D claims be made for the periods ended 31 December

2026 and 2027 for BUL, and that patent box relief is claimed on the income received in relation to these profits.

If done as above, there is no reason for HMRC to challenge these arrangements as they will be for bona fide commercial reasons, provided that the relevant applications are made as discussed above.

Part 1 - Tax implications of the business model for the new venture

This part of the report addresses the tax implications of the new venture following either a licensing model where Bersea will use third parties with which it already has existing relationships with to manufacture and distribute the new products under the brand name "Bersea", or an integrated model with the manufacturing taking place in house through a new subsidiary of Estcon BV (EBV).

<u>1.1 - Direct tax consequences of licensing model</u>

If Bersea uses the licensing model, then the direct tax consquences will be that income will be received as royalties from UK third parties.

Royalties received by a UK company from another UK company will be received gross and there will be no withholding tax suffered if the know-how was held by Bersea UK Ltd (BUL).

Where royalty payments are made by UK companies to non-UK companies, there is a withholding tax of 20%, however as Zevmark has a double tax treaty that follows the

OECD model guidelines, there would be no withholding tax on any royalty payments made from the UK third party manufacturers if the know-how was held by BZ Inc (BZI).

With no withholding tax on the royalties, the annual after tax amounts received on the £100 million licence fee revenue for the five years from 31 December 2028 to 2032 would be £75 million for BUL, or £100 million for BZI (see Part 2 for further discussion).

1.2 - Direct tax consequences of integrated model

If the integrated business model is used, on the acquisition of EBV, the £100 million cost, and any other associated costs, will not be deductible for tax purposes.

EBV will have annual operating profits of £120 million, on which they will be charged tax at 15%, paying £18 million of tax, for after tax amounts of £102 million.

EBV would also need to pay royalties to whichever company holds the know-how at an arm's length price (see 1.5 for further discussion). As Estmark has double tax treaties that follow the OECD model guidelines with both the UK and Zevmark, there will be no WHT suffered on these royalties.

The profits of EBV can then be repatriated to Bersea in the UK through dividends, for which Estmark charges no withholding tax.

1.3 - Multinational top-up tax

Currently the group sits below the €750 million turnover threshold for falling within the

Pillar 2 rules, however if EBV is acquired, then the groups' turnover will be €960 million (£800 million x 1.20).

As a result of this threshold being exceeded and will be for the forseeable future, where in two of the prior four years a group exceeds this threshold, they will be within the Pillar 2 top-up tax rules.

As such, Bersea will fall under the Pillar 2 rules from the period ended 31 December 2027. If any companies in the group, or jurisdiction in which they have a fixed presence have an effective tax rate below 15%, a top-up tax will need to be paid.

As the corporation tax rates UK and Estmark are not below 15%, it is unlikely for them to need to pay any top-up tax, however BZI pays 0% tax, and will not be introducing any top-up tax legislation, and so will likely need to pay top-up tax in the future.

As the ultimate parent of the group, Bersea will need to register for Pillar 2 within 6 months of the end of the first period in which they fall under it, so by 30 June 2028.

Bersea would also need to file an information return and self-assessment return within 18 months of the 31 December 2027, and then within 15 months of any subsequent periods.

<u>1.4 - Controlled foreign company</u>

EBV will be a controlled foreign copmany (CFC) of Bersea, as a wholly owned subsidiary of a UK company.

Where a company is a CFC, its profits may be subject to tax in the UK through a CFC charge. This charge can be avoided however if one of the exemptions is met, or the profits do not fall under one the gateways.

The exempt period exemption will apply to EBV for the first period it is controlled by Bersea, being the period ended 31 December 2026, however after this it is unlikely that any of the other exemptions will be met, due to its high profits, and low tax rate.

However, provided that the company is managed in Estmark, and does not have large UK operations, which is likely based on the company's size prior to acquisition, then it is likely that its profits would not fall under any of the gateways, and so no CFC charge would arise on its profits in the UK.

In order to mitigate the risk of this, it should be ensured that the trade of EBV is undertaken and managed in Estmark and no significant people functions, like management, are undertaken in the UK.

Bersea will also need to report Estmark as a CFC on its Corporation tax return each year, as well as any exemptions that it has for that period.

1.5 - Transfer pricing

As EBV would become part of the Bersea group, transactions with them must be done on an arm's length basis. This means that royalty payments for use of the know-how must be made, and assuming the amounts received under the licensing model are arm's length, this would be £100 million. As discussed earlier, there would be no withholding tax on these payments.

This would have a net impact of 10% (25% - 15%) additional tax in the UK, or reduction of 5% (10% - 15%) tax in Zevmark, giving additional tax of £10 million, or reduction of tax of £5 million.

The acquistion of EBV would also cause the Bersea group to fall under the very large transfer pricing regime - the threshold is the same as that for Pillar 2.

This means that Bersea would need to maintain a master file and local file each year documenting the basis of the intra-group transactions and showing they are on an arm's length basis. Benchmarking will need to be undertaken every three years/

No submission will need to be done of these files, however HMRC could request the documentation, in which case it must be provided within 30 days.

Due to the group's size after the acquisition, country-by-country (CbCR) would also need to be done, with a submission done each year.

One way to mitigate any potential transfer pricing risk would be to put an advanced pricing agreement (APA) in place. As Estmark has a double tax treaty with the UK, a bilateral agreement could be put in place with HMRC and the relevant Estmark authorities. This could preemptively cover the royalty payments as being on an arm's length basis and so no require any potential adjustments to the tax returns to adjust for arm's length prices, once the APA and agreed transfer price is in place.

<u>1.6 - Residence</u>

It should be considered whether the acquisition and additional trading activities of EBV would cause it to become UK resident.

A company that is non-UK incorporated will be UK resident for tax purposes if it is centrally managed and controlled from the UK. EBV beginning to manufacture and distribute the new product after the Bersea investment could be considered as being centrally managed and controlled from the UK.

However, due to EBV's prior position, and its continuing trade with other parties, it is unlikely that it will be considered centrally managed and controlled from the UK.

<u>1.7 - Other taxes</u>

The acquisition of the shares in EBV will give rise to stamp duty of £500,000 (£100 million x 0.5%). This will be relievable on a future disposal of the shares, however as the company is trading, it is likely to qualify for the substantial shareholding exemption, and so no relief will be received on the stamp duty paid.

There will be no VAT on the acquisition as shares are exempt from VAT.

<u>1.8 - Summary</u>

Under the licensing model, annual after tax amounts on the licence fee revenue would be £75 million in the UK, or £100 million in Zevmark.

If the integrated model is used, annual after tax amounts on the product sales and licence fees after the transfer pricing adjustment will be £92 million (£102 million - £10 million) or £107 (£102 million + £5 million).

There will also be stamp duty of £500,000 under the integrated model.

While the after tax proceeds are better under the integrated model, as well as giving far more profits from EBV's other trade activities, this must be weighed up with the increased compliance burdens that the acquisition will place on Bersea.

Part 2 - Tax implications of the location of product development

This part of the report addresses the tax implications of the product development of the new skincare compound and premium product being developed by Bersea UK Ltd (BUL) in the UK, or by BZ Inc (BZI) in Zevmark.

2.1 - Product development by Bersea UK Ltd

If the product development is undertaken BUL, then the company will get relief for the amortisation at £30 million per year.

It would also be eligible for research & development (R&D) reliefs on the product development costs of the staff costs and consumable materials. The marketing and brand development costs would not qualify as R&D relief, so no alternative suggestions have been made for the treatment of these items, with them being left as getting relief as amortised intangibles.

If the product development costs of £100 million are capitalised, then relief will be available through amortisation of £20 million per year (£100 million / 5). This would give a total tax saving of £25 million (£100 million x 25%) for the costs, however no R&D relief would be available.

If the costs not capitalised and instead treated as profit and loss expenses, the £100 million product development costs would be deductible in the period in which they arise, and an R&D expenditure credit (RDEC) could be claimed.

The RDEC is 20% of the qualifying R&D expenditure and is a taxable credit, however the amount that is added back is then deductible from the Corporation tax liability (see Appendix 1 for impact of this in 2026 and 2027).

If the RDEC was claimed then there would be no liability for BUL in 2026, assuming the figures are consistent with 2025, and give a total RDEC of £20 million, and a total tax saving of £45 million for the product development costs (see Appendix 1).

Nil CT liability in 2026 and 2027 (see Appendix 1) and total RDEC of £20 million against CT liabilities - tax saving of £45 million (see Appendix 1)

The amount of royalties received would be £100 million regardless of the business model as discussed above.

Patent box relief would be available on the royalties received as it is for qualifying IP. Under this relief, the income related to the IP is streamed and effectively taxed at 10%, through an adjustment to profits.

This would give rise to no UK tax liability for 2028 to 2032 (see Appendix 2).

One thing that needs to be considered along with this is the impact it could have on the top-up tax, as it could mean that the UK's effective tax rate falls below the 15% effective tax rate.

To make the claim for RDEC the claim must be made within two years of the end of the accounting period, so by 31 December 2028 and 2029, and an additional information form must also be submitted. The same deadlines also apply for making the claim for the patent box election, however this will be done for each period in which the company has the income from the IP.

<u>2.2 - Product development by BZ Inc</u>

If the product development was done by BZI, then no R&D or patent box relief would be available. However, due to the special economic zone, tax would be charged at 0%.

There are several issues that could potentially arise on this though. First, the diverted profits tax (DPT) may apply if the transactions lack economic substance and have to pay tax at 31% on the diverted profits.

While BZI was setup as a new product development centre, and all significant people functions are undertaken in Zevmark, due to the economic free zone, and the fact the development could be undertaken in the UK, there may be cause to argue that there is a lack of economic substance in the transaction, particularly as the royalty income it receives would be taxed at 0%.

It may also give rise to a CFC charge for the same reasons as EBV as discussed above, particularly if the IP is only licenced to UK companies.

If EBV is acquired the group is subject to multinational top-up tax, then Bersea will need to pay a top-up tax in the UK of 15% for the profits of BZI of £6 million per year (£40 million x 15%), in relation to the IP.

Therefore, there would be a significant liklihood of the tax authorities challenging the new arrangments if the product development were undertaken by BZI.

2.3 - Summary

If the product development occured in BUL then it would get access to R&D reliefs and the patent box election, which would lead to tax savings of £45 million, and £75 million respectively.

These would not apply in Zevmark and additionally there would be further risks that would arise as a result of the IP being held in Zevmark.

Appendices

Appendix 1 - RDEC for product development in 2026 and 2027

Assuming that the product development costs were split evenly between 2026 and 2027 and that Bersea UK Ltd's profits are consistent in 2026 and 2027 with those in 2025.

Years ended 31 December 2026 and 2027	**Notes**	**£**	**£**
Profit before tax (excluding new venture set-up costs)			80,000,000
Product development costs	(Evenly split between the two years)		(50,000,000)
			30,000,000
RDEC	1		10,000,000
Taxable total profits			40,000,000
Corporation Tax at 25%			10,000,000
Less: RDEC			(10,000,000)
Corporation tax payable			Nil

Notes:

1) RDEC is 20% of the qualifying R&D expenditure. The staff costs and consumable materials are qualifying expenditure and so RDEC is available on £50 million (£100 million split across the two periods) at 20% = £10,000,000

Total tax saving of £45 million from £25 million deduction (£100 million @ 25%) and £20 million RDEC credit (£10 million x 2).

Appendix 2 - Patent box relief taxable profits

	Notes		**£**
Licence fee revenue @ 10%	(100,000,000 x 10%)		10,000,000
Operating costs @ 25%	(30,000,000 x 25%)		(7,500,000)

Amortisation of non-product development set-up costs	(10,000,000 x 25%)		(2,500,000)
CT liability			nil