



HWFisher

THE BREXIT EFFECT

KEY CONSIDERATIONS
FOR SETTING UP IN EUROPE

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INTRODUCTION

While the outcome of the Brexit negotiations is currently unknown, the UK has a long and proud history as a global trading nation and will no doubt be resourceful in maximising its trade opportunities internationally, including with the EU.

London recently retained its number one spot as the top major city in the world for attracting businesses and talent, according to the influential Global Financial Centres Index, which was compiled by academics from prominent global universities. Forecasts from Oxford Economics also predict that London's economy will continue to grow above the average for other European cities until 2021.

But, as uncertainty still surrounds Brexit, we are discussing options with many of our clients who trade in Europe. There are concerns about how complex it will be to trade from the UK into the EU, in terms of documentation and tariffs. While the situation remains unclear, we felt that the following comparison between 10 major European countries that are likely to attract foreign businesses wanting to set up in Europe would provide food for thought.

In this guide, we take a look at each country's financial business landscape, including VAT thresholds, minimum wage, employer social security contributions, reliefs for R&D, corporation tax rates and how easy it is to incorporate a company.

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KEY FACTS

- Very easy to incorporate a company – it can even be on the same day. Private company minimum capital requirement is £0.01, while a public liability company must have an issued share capital of £50,000 with at least 25% paid up.
- There are no restrictions on foreign ownership.
- Having a local director is not required, although it makes it much easier to set up a bank account.
- Easy to set up a branch – no minimum capital requirement.
- Corporation tax 19%, to be reduced to 17% from 1 April 2020.
- Straightforward to register for VAT – an EU business doesn't need to have a place of business in the UK to make supplies.
- VAT rate 20%. Some specific goods and services are zero-rated.
- VAT – don't need to appoint a local agent, businesses can be registered from an overseas address.
- Income tax: each individual can claim a £11,850 personal allowance which is exempt from tax. Rates increase according to level of income and range from 20%-45%.
- Employers pay 13.8% social security cost on all pay over £8,424 p.a.; employees pay 12% on pay between £8,424 and £46,350 – above that level it is 2%.
- There are no restrictions on extracting funds.

KEY CONSIDERATIONS

- There are two favourable schemes for R&D: one for SMEs which allows companies to deduct 230% of eligible expenditure, the other for larger enterprises which gives a taxable credit of 11%.
- Minimum wage varies according to age, starting at £4.05 per hour for 16 and 17 year olds, rising to £7.50 per hour for 25 years+. Upper limit set to increase to at least £9 per hour by April 2020.
- Employees are entitled to be 'auto-enrolled' into a pension scheme if they earn above £10k p.a. Minimum contribution rates are 1% for employer and employee, but this is set to rise to 2% and 5% on 1 April 2018, and 3% and 8% on 1 April 2020.
- Setting up a bank account is very challenging if you don't have a UK director. Those who do must allow at least three weeks.
- Standard withholding tax rates on interest/dividends/royalties are 20%, but may be reduced by double tax treaties.
- Capital gains – most individuals are entitled to a £11,700 annual allowance. After this it varies from 10%-28%, depending on the asset and total income. Assets that qualify for Entrepreneurs Relief pay 10% up to £10m lifetime gains.

AUSTRIA

KEY FACTS

- Minimum capital requirements: €35,000; stock corporation – €70,000 minimum nominal capital.
- No restrictions on foreign ownership.
- Easy to set up a branch with a standard filing process at the commercial court – no minimum capital requirement.
- Corporation tax is 25%.
- Registering for VAT is a standard process at the tax office and takes 1-2 weeks.
- Standard VAT rate is 20%. VAT rate on export and intra-EU supplies of goods is 0%.
- Resident and non-resident businesses carrying out taxable transactions in Austria are required to register for VAT. Generally, there are no registration limits.
- An entrepreneur without a residence or registered office in the EU, who is making intra-EU supplies where VAT is payable by the recipient, must appoint a fiscal representation and notify the tax office.
- Income tax rates range from 25%-55% after a tax free allowance of €11,000.
- Social security costs range up to 21.48% for the employer and 18.12% for the employee.



KEY CONSIDERATIONS

- Managing director isn't required to have a residence in Austria, but the statutory manager must be domiciled within Austria or, if they're an EEA national, in an EEA country – they can be any employee, doesn't have to be a managing director.
- R&D costs are fully deductible at the time they accrue. An R&D premium of 14% (increased from 12%) may be claimed for R&D activities carried out in Austria.
- Many collective agreements determine minimum wage – employer has to clarify which is applicable for the business.
- Withholding tax (WHT) rates: interest payments to non-resident companies are not subject to WHT. Dividend WHT is 25% for corporations, while royalties paid to a non-resident company are at a rate of 20%.
- Short and long-term capital gains are taxed at 25%.
- Tax is generally levied at 3.5% on transactions that change the ownership of Austrian real estate.

BELGIUM

KEY FACTS

- The most commonly used entities in Belgium are a public limited liability company (NV/SA) with the minimum capital requirement of €61,500 and a private limited liability company (BVBA/SPRL) with the minimum capital requirement of €18,550. The incorporation process of a Belgian company can in general be finalized within a week and requires the following steps: opening of a blocked bank account in which the company's capital can be deposited, preparation of a financial plan, meeting before a Belgian notary and subsequent release of the share capital, registration with the Crossroad bank of Enterprises and affiliation with the social security and VAT administration.
- There are no restrictions on foreign ownership.
- It is easy to set up a branch – no minimum capital requirement or board of directors. Filing a branch must be done at the Court of Commerce.
- The corporation tax rate is 29.58% in 2018 and 2019, from 2020 the income tax rate is equal to 25%. There is a reduced rate for SME's of 20.40% on their first €100,000 taxable income. Multiple specific deductions however reduce the effective tax rate of companies.
- The standard VAT rate is 21%.
- The Belgian VAT administration needs proof that a Belgian VAT registration is necessary and it can take up to six weeks for a foreign company to satisfy these requirements.
- When opting for a direct VAT registration, no local agent is necessary, but Belgian VAT administration must be able to do a VAT audit on Belgian soil.
- Personal income tax rates range from 25% to 50%.
- Social security costs are set at 25% for the employer and 13.07% for the employee.

KEY CONSIDERATIONS

- It's easy to set up a bank account – possible in one or two days.
- A private company must have at least one local director. A public limited company must have a board of directors, with the number of directors required dependent on the number of shareholders.
- SMEs – there's an investment deduction of 20% for new investments made in 2018 or 2019, on fixed or intangible assets.
- Innovative companies can benefit from a tax deduction equal to 85% of the net innovation income and applicable to some types of intellectual property. In general, R&D activities can benefit from multiple tax and social incentives.
- Minimum wages are agreed by sector between unions and employers' representatives. The minimum wage is around €1,500-1,600 per month, depending on age and seniority.
- Dividends received by a company are fully exempt from corporate income tax for all participations of at least 10% or with an acquisition value of €2.5 million held for at least twelve months.
- Capital gains realised by a company are fully exempt from corporate tax to the extent that the requirements are under the dividend exemption are met.
- Withholding tax rates on dividends, royalties or interests are generally set at 30% but might be reduced by virtue of tax treaties. Specifically for dividends distributed to UK shareholders, the withholding tax in Belgium has to be limited to 10%.

FRANCE

KEY FACTS

- A company can be set up within eight business days; a lease agreement will be required before the company is set up, otherwise a domiciliation agreement is possible.
- A new branch must be filed with the French Trade and Company registry and a lease agreement is required, although a domiciliation agreement is possible without one. There is no minimum capital requirement.
- Corporation tax:
 - In 2018, the tax rate of 28% applies to the first €500,000 of taxable income of all companies and 33.33% thereafter.
 - In 2019, the tax rate of 28% applies to the first €500,000 of taxable income and 31% thereafter.
 - In 2020, the tax rate will be of 28% on the whole taxable income.
 - In 2021, the tax rate will be of 26.5% on the whole taxable income.
 - For 2022 and the next years, the tax rate will be reduced to 25%.
- There are no restrictions on extracting funds.
- Rates of VAT: 20%; intermediary rate 10% or 5.5%; reduced rate 2.1%.
- As soon as the company is registered on the French register of companies, it receives a VAT number. The process takes 2-3 weeks. Income tax rates range from 14% to 45% after a tax free allowance of €9,807.

KEY CONSIDERATIONS

- R&D tax relief at 30% on R&D costs up to €100m.
- Withholding taxes – dividends, interests and royalties are all exonerated.
- Capital gains – short-term, 33.33%, more than two years, reduced rate (from 4% to 19% depending on the case).
- No local agent needed when registering for VAT – the company can declare and pay VAT returns directly on the French tax authority website.
- The registration limits for having to apply for VAT registration under the normal VAT regime are turnover higher than €238,000 for services or €789,000 for goods.
- The minimum wage is €1,498.47 per 35 working hours.
- Income tax rates range from 14% to 45% after a tax free allowance of €9,807.
- A non-EU national/resident who wishes to carry out commercial activities must obtain a long-stay visa to enter France then apply for a temporary residence permit which authorises these activities. This means no local director is required.
- Opening a bank account is often difficult for foreign companies and individuals. If your existing bank has branches in France, it's advisable to set up an account in France with them, otherwise a lot of documentation is required. The process can take between two days and a few weeks, depending on whether the French bank already knows the client.

GERMANY

KEY FACTS

- Very easy to incorporate a company if a representative is in Germany. Usually a capital of 25.000 Euro is recommended, but not necessary.
- There is no restriction of foreign ownership.
- Local director is not required, although it is much more difficult to set up a German account without a local director, due to the money laundering rules.
- Easy to set up a branch. No minimum capital requirement.
- Corporation tax 15% plus 5.5% solidarity surcharge on this tax. Additionally 15% to 17% trade tax, depending upon the municipality where the company is performing its business.
- Registration for VAT is simple and usually takes 1 to 2 weeks.
- VAT rate is normally 19%. 7% rate applies to certain goods. VAT rate on export and intra-EU supplies of goods is 0%.
- Income tax: each individual has a personal allowance of 9.408 Euro which is exempt. Income tax rates starts at 14%. Rates increase till 42%. Additionally a 5.5% solidarity surcharge is applicable on this rate.
- Employees and employer each pay approx. 21% for social security (healthcare, pension, unemployment) up to a monthly income of 6.500 Euro.
- There are no restrictions on extracting funds.

KEY CONSIDERATIONS

- R&D costs are fully deductible at the time they accrue for tax.
- Minimum wage for 2019 is 9.19 Euro per hour. In 2020 minimum wage will increase to 9.35 Euro per hour. Many collective agreements have determined higher minimum wage.
- Withholding tax (WHT) is only applicable on dividends (25% plus 5.5% solidarity surcharge) from corporations. According to nearly all Double taxation agreements lower rates are applicable in a lot of cases (usually if the percentage of the ownership is higher than 25%). This can vary from 0% till 25%. In this case the shareholder can apply for a certificate of exemption which usually takes between three and six months.
- There is no WHT on interest payments.
- 95% of the capital gains from the sale of shares (in corporations) are tax exempt.
- Real estate transfer tax varies between 5% and 6.5% depending upon the federal state where the estate is located.
- Setting up a bank account can be very challenging if there is no German director due to the money laundering rules.



ITALY

KEY FACTS

- It's easy to incorporate a company in Italy – it takes a few hours to obtain a VAT number and three working days to be registered at the Chamber of Commerce.
- There are no restrictions on foreign ownership and a local director is not required.
- It takes three working days to register a branch at the Chamber of Commerce.
- National corporate income tax is 24%; regional corporate income tax is 3.9%.
- VAT standard rate is 22%.
- It's not mandatory to appoint a local agent when registering for VAT. Companies resident in the EU can also register for VAT directly, while those outside the EU can appoint a VAT representative. Personal income tax ranges from 23% for those earning less than €15,000 per year, to 43% for yearly income up to €75,000.
- Social security contributions are 20% for the employer and 10% for the employee.
- There are no restrictions on extracting funds, apart from anti-money laundering laws that prevent cash withdrawals of more than €3,000.

KEY CONSIDERATIONS

- Italy offers a wide range of reliefs for capital expenditure, many EU-funded.
- Italian companies performing R&D activities can benefit from a tax credit from the fiscal year 2015 to 2020, calculated on the qualified expenditure incurred. The tax credit mechanism is incremental.
- Minimum wage depends on the contract and the employment category.
- Setting up a bank account takes only a few hours. It requires the presence of the legal representative at the bank.
- 95% of capital gain can be exempt if certain conditions are met; if not, then the general corporate tax rate of 24% is applied.
- The standard withholding tax rate on dividends, interest and royalties is 26%. This can be reduced to nil under EU directives or double tax treaties.
- Taxes on properties are due twice a year, in June and December. There is a registration tax when buying real estate and the operation of a going concern.
- Employer must set aside 7.4% of gross salaries as a severance fund that accrues each day, to be paid when the employee leaves the company for any reason. For executive employees, the employer must pay a welfare fund that can range from 8.3% to 16%.

POLAND

KEY FACTS

- It's easy to incorporate a company, even within one business day. Minimal capital requirement of €1,200.
- There are no restrictions on foreign ownership.
- No local director is required for the limited liability company, just the branch office.
- It's fairly easy to set up a branch, but registration in the National Court Register is required. No capital requirements.
- Corporation tax is 15% for small and new entities, 19% for others.
- The standard VAT rate is 23%.
- Income tax is 18% for those earning up to 85,528PLN, and 32% for those earning over 85,528PLN.
- Social security on employment revenue is 34.32%-20.61% from the employer and 13.71% from the employee, plus health service of 9% (financed by employee only). However, 86% of health service contributions is deductible against personal income tax.
- A disability fund is required if the employer hires more than 25 employees. If there are 50 or more employees, a social fund must be created.



KEY CONSIDERATIONS

- There is a one-time depreciation for capital expenditure on business assets for small taxpayers and start-ups.
- Minimum wage is 2,100 PLN/month gross (2018).
- It's quite easy to set up a bank account – the bank will need notary-verified signatures on documents or can open the bank account during a face-to-face meeting with the company's representatives.
- There is a tax benefit of 130% or 150% of R&D costs, depending on certain conditions.
- VAT registration can usually be done within three business days, following the visit of a tax officer to check the registered address of the applicant.
- It's worth noting that the person representing the applicant is jointly and severally liable for VAT liabilities for the first six months after VAT registration.
- Taxpayers whose annual turnover is less than 200,000 PLN net are generally exempt from registration.
- Generally, there are no restrictions on payments of dividends, interests, royalties, service fees, pricing for goods etc.
- Standard withholding tax (WHT) is 20% of gross interest and royalties, and 19% of gross dividends unless a double tax treaty or EU Directive provides for a lower rate or exemption. Taking into account the double tax treaty with the UK, the rate of WHT on gross interest and royalties is 5% and 0% on dividends paid to companies and 10% of other shareholders.
- Other considerations: Transfer tax (e.g. 0.5% on nominal share capital, 1% on sale of share, 2% on loans). Property tax on real estate assets.

SPAIN

KEY FACTS

- It takes c.45 days to incorporate a company, due to obtaining Spanish tax ID of shareholders, registration of deeds and social security registration. Minimum share capital is €3,000.
- No restrictions on foreign ownership, but the owners must have a Spanish tax ID number.
- Corporation tax is 25%.
- VAT registration can be processed immediately inside Spain. Registration to perform imports requires a digital certificate. Registration to perform European operations can take 1-3 months.
- The general VAT rate is 21%, with a reduced rate for food and medical equipment, and a 4% rate on basic products such as milk, bread and cheese.
- The distance sales threshold for VAT is €35,000.
- You don't need to appoint a local agent when registering for VAT, but someone with a Spanish tax ID should sign the request for the VAT number.
- The state band for income tax is 9.5%-22.5%, and the regional band is 9.5%-25.5%.
- Social security costs: employee 6.34%, employer 33%. For self-employment, the cost is €270 a month.

KEY CONSIDERATIONS

- No local director is required, but for operational ease it's recommended that someone with powers of attorney becomes a Spanish tax resident.
- Setting up a branch is similarly time-consuming to incorporating a company, though no minimum share capital is required.
- Minimum wage is €10,302.60 p.a.
- Capital gains band is 19%-23%.
- The ease of setting up a bank account varies between banks and their individual procedures.
- Standard withholding tax rate for interest, dividends and royalties is 19%.
- There is no specific relief for capital expenditure on business assets, but a general 10% corporate income tax (CIT) reduction could apply under certain circumstances.
- For R&D, there are several tax measures: tax computation deduction of 25%-42% of R&D expenses incurred during the tax year. There is a special regime to obtain a reimbursement of the deduction in the event you cannot apply it on your CIT computation.
- There are no restrictions on extracting funds in principle, but equity cannot be lower than 50% of company share capital.
- After Brexit, the double tax treaty between Spain and the UK will apply. Dividends could be withheld on a rate of 10%-15%, or considered exempt in some circumstances. Interest and royalties would only be taxed where the beneficiary is resident.
- Other considerations: stamp duty, transfer tax, local taxes.

SWITZERLAND

KEY FACTS

- It's straightforward to incorporate a business and takes one to two weeks. Minimum capital requirements: Corporation – CHF 100,000; Limited Liability Company – CHF 20,000.
- There are no restrictions on foreign ownership but special rules apply for real estate.
- Local director required.
- Branches of a foreign legal entity require certified legal documents.
- Corporation tax is on three different levels – Federal, Cantonal and Communal. Pre-tax rates vary currently between 11.4% and 24.7%.
- It's very easy to register for VAT online. The standard VAT rate is 7.7%, the reduced rate 2.5% and the accommodation VAT rate is 3.7%.
- The registration limits for having to apply for VAT registration is an annual worldwide turnover which exceeds CHF 100,000.
- It is advisable to appoint a local agent when registering for VAT.
- Income tax is on three different levels – Federal, Cantonal and Communal. Rates vary as to where the individual lives and on marital status and number of children. They go up to 11.5% Federal taxes and 30% Cantonal taxes.
- Social security costs are a total contribution of 10.25%, divided equally between employee and employer. For self-employment the rate is 9.65%.
- There are no restrictions on extracting funds.

KEY CONSIDERATIONS

- A one-time tax depreciation allowance of 80% of the asset value is available for capital expenditure on business assets.
- Setting up a bank account is straightforward.
- Standard withholding tax (WHT): 35% on interest and dividends, 0% of royalties. Taking into account the double tax treaty with the UK, the WHT rates are 0% on interest, 15% on dividends.
- Patent box currently available only in one Canton. With new tax reform, patent box will be available for all companies in Switzerland.
- Other costs with employment and self-employment are insurance for pension, disability, unemployment, accident and sickness.
- There is no minimum wage; some industries have collective agreements with minimum wage requirements.
- Capital gains related to business assets are subject to taxation as ordinary income. Capital gains on investments benefit from tax relief. There are special provisions for real estate. For individuals, capital gains from movable assets are generally tax-free.



THE NETHERLANDS

KEY FACTS

- It's easy to incorporate a private limited liability company and there is no minimum capital requirement.
- There are no restrictions on foreign ownership.
- A local director isn't required, but having one can be desirable from a tax perspective.
- Branches must be registered at the Chamber of Commerce; there is no minimum capital requirement.
- Corporate income tax rates:
 - Up to €200,000 is taxed at 20%.
 - Over €200,000 is taxed at 25%.
 - The first bracket will be extended gradually over the next four years.
- Registering for VAT is easy and takes up to two weeks.
- General VAT rate is 21%, the reduced rate is 6% (9% as of 2019).
- There is no threshold for VAT registration and no need to appoint a local agent.
- Individual income tax ranges from 8.9% to 51.95%. A reduction of the top rate to 49.50% is planned by 2021.
- Social security costs for the employer range from 10.1% to 25.26% (usually 18% to 22%). The maximum basis for these contributions is €54,616 per year.
- Employees themselves pay 27.65% on their taxable income. The contribution base is capped at €33,994 per year.



KEY CONSIDERATIONS

- The minimum wage is adjusted twice a year, on 1 January and 1 July. For employees aged 23 and over, minimum wage is €1,551.60 per month. Collective agreements often determine higher wages. In many sectors there is also a compulsory pension fund and compulsory social funds.
- Employees that are new to the Netherlands, lived more than 150km from the Dutch border before starting in the Netherlands and earn a taxable salary of more than €37,296 per year, may qualify for a beneficial tax regime (the 30% facility) for 5 years.
- Possible for foreigners to open a bank account, but it can be very time-consuming.
- Random depreciation is available for capital expenditure on business assets and is generally limited to the cost of acquisition or production. An environmental investment deduction is granted for qualifying investments.
- A reduction of wage withholding tax (WHT) is available on salaries of staff performing R&D activities. In 2017, the wage tax reduction is 32% on the first €350,000 in salaries paid to employees.
- Innovation box – profits attributable to in-house developments qualify for the innovation box and are taxed at a rate of 5%.
- National insurance schemes are a legal obligation. Employees are also required to take out basic health care insurance with a Dutch insurer, which costs around €110 per month. Employed persons' insurance schemes are obligatory and the employer bears the full cost – these social security premiums are paid monthly to the tax office.
- For individuals, there is no capital gains tax on immovable property. For shares, only shareholdings of 5% or more are taxed at a rate of 25%. For companies, capital gains realised on the disposal of any asset are treated as normal business profits.
- There is no WHT on interest or royalties. In theory, there is a 15% WHT on dividends, but in practice this rate is often reduced to 0% under treaties and EU directives.

WITH THANKS TO

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