



Incorporating a Company in Andorra

Andorra has transitioned from a traditional tax haven to a competitive, transparent tax jurisdiction aligned with international standards. This shift, coupled with its exceptionally low tax rates, makes it an appealing prospect for international businesses.

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Incorporating a company in Andorra as a UK tax resident involves understanding the various types of corporate structures available, their respective regulatory and taxation frameworks, and the implications for UK tax obligations.

Andorra offers several corporate structures suitable for business incorporation:

- **Societat Limitada (SL)** – Limited Liability Company: This is the most common form of incorporation, ideal for small to medium-sized enterprises. It requires a minimum share capital of €3,000, with at least one shareholder. Shareholders' liability is limited to their capital contribution.
- **Societat Anònima (SA)** – Public Limited Company: Suitable for larger enterprises, the SA requires a minimum share capital of €60,000 and at least two shareholders. This structure is often chosen by companies planning to raise capital publicly.
- **Branches of Foreign Companies:** Foreign entities can establish a branch in Andorra without creating a separate legal entity. The branch operates under the parent company's name and is subject to Andorran laws and taxation.
- **Holding Companies:** Andorra allows the formation of holding companies that benefit from specific tax advantages, particularly concerning the management of subsidiaries and investments.

Each corporate structure is subject to specific regulatory and taxation obligations:

- **Registration and Compliance:** All companies must register with the Andorran Companies Registry and obtain the necessary licenses and permits relevant to their business activities. Annual financial statements must be prepared, and certain companies may be required to undergo audits, depending on their size and turnover.
- **Corporate Taxation:** Andorra imposes a flat corporate tax rate of 10% on net profits. New companies benefit from a 50% reduction in the tax rate during their first year of operation. Additionally, companies with an annual turnover below €100,000 enjoy a reduced tax rate of 5% on the first €50,000 of profit for the first three years.
- **Value Added Tax (VAT):** Known locally as the Impost General Indirecte (IGI), Andorra's VAT is set at a general rate of 4.5%. Reduced rates

apply to specific goods and services, such as a 1% rate for basic necessities and a 9.5% rate for banking and financial services.

- **Personal Income Tax:** Introduced in 2015, Andorra's personal income tax is progressive:
 - Income up to €24,000 is taxed at 0%.
 - Income between €24,001 and €40,000 is taxed at 5%.
 - Income exceeding €40,000 is taxed at 10%.
 - Investment income benefits from a €3,000 exemption, with amounts above this taxed at 10%.

UK Tax Obligations for Controllers of Andorran Companies

UK tax residents controlling foreign companies must be cognisant of specific UK tax regulations:

- **Controlled Foreign Company (CFC)**
 - **Rules:** The UK's CFC rules aim to prevent UK companies from using low-tax jurisdictions to avoid UK taxation. A foreign company is considered a CFC if it is controlled by UK residents and pays less than 75% of the tax it would have paid if resident in the UK. If deemed a CFC, certain profits may be subject to UK tax, unless exemptions apply.
 - The foreign company is resident in a jurisdiction on the UK's "white list" of countries not considered tax havens.
 - The company's accounting profits are below £200,000.
 - The company meets an active business test, indicating genuine economic activities.
 - The company's profits are taxed at a rate not less than 75% of the corresponding UK tax.
 - **Foreign Income and Gains:** UK residents are taxed on their worldwide income and gains. Therefore, any dividends or benefits received from the Andorran company are subject to UK taxation. Double taxation relief may be available, allowing UK residents to offset foreign taxes paid against their UK tax liability on the same income.
 - **Reporting Requirements:** UK residents with interests in foreign entities must disclose these on their UK tax returns. Failure to do so can result in penalties.

In conclusion, incorporating a company in Andorra offers potential benefits, including a favourable

corporate tax rate and a straightforward regulatory environment. However, UK tax residents must carefully navigate both Andorran and UK tax laws to ensure compliance and optimize their tax position.

Professional advice from tax experts familiar with both jurisdictions is highly recommended to address the complexities involved.

So what if you move from the UK to Andorra?

Relocating from the UK to Andorra as the controller of an Andorran company introduces significant changes to both personal and corporate tax obligations. Here's an overview of the implications:

- The relocation of the company's controller from the UK to Andorra does not necessitate changes to the company's existing structure.

Upon establishing residency in Andorra, the former UK Tax Resident's tax obligations shift accordingly:

- Personal Income Tax (IRPF): Andorra's personal income tax is progressive:
- Income up to €24,000 is tax-exempt.
- Income between €24,001 and €40,000 is taxed at 5%.
- Income exceeding €40,000 is taxed at 10%.

This structure offers a favourable tax environment compared to many other jurisdictions.

Dividend Taxation: Dividends received from Andorran companies by residents are generally exempt from further taxation if corporate tax has already been paid at the entity level.

Corporate Income Tax: Andorran companies are subject to a flat corporate tax rate of 10% on their worldwide profits.

It should be noted that, as of now, the Double Taxation Convention (DTC) between the UK and Andorra is not in force. This means that income may be subject to taxation in both countries without relief. This should not matter if you have no UK income and thus no UK Tax liability if you are no longer resident in the UK.

In conclusion, relocating to Andorra as the controller of an Andorran company can provide substantial tax advantages, including low personal and corporate income tax rates and favourable treatment of dividends. However, the absence of a DTC between the UK and Andorra requires careful planning to mitigate potential double taxation. It is advisable to consult with tax professionals experienced in both jurisdictions to ensure compliance and optimize tax efficiency.

Turner Little have been involved in the incorporation of overseas structure for over a quarter of a century and are well positioned to give guidance in a huge variety of circumstances affecting clients. Whilst Turner Little do not give legal or tax advice and strongly recommend that clients seek this themselves in all cases, they can in some cases introduce clients to other professional service providers who are able to give the client direct advice.



If you need further support with wealth management and similar, please get in touch with one of our experts at Turner Little to find out more information
<https://www.turnerlittle.com/wealth-management/>



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James Turner, Director at Company Formation Specialists, Turner Little, has a proven track record in helping clients maximize their assets in creative and bespoke ways. He is directly responsible for sales and marketing, with considerable specialist knowledge of UK and offshore banking.

James doesn't just have drive in the world of business. In his spare time, he has a passion for fast cars and boats.