Independent legal & accounting firms

Doing Business in the UK

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Doing business in the United Kingdom

MSI's guide on Doing Business in the United Kingdom provides current information about the financial, regulatory and legal considerations that could affect business dealings within United Kingdom. For further assistance please contact our MSI member firms in the United Kingdom.

Country overview

Introduction

There are many reasons why so many businesses choose to set up base within the UK. The UK is an attractive place to do business, as it lies in the central time zone between the USA and Asia and has the benefit of a thriving financial centre and a home market of more than 67.5 million people.

The UK also has a favourable corporate tax regime and, depending on your field of business, there are several grants and incentives that your business may be able to take advantage of. However, for businesses looking to set up in the UK, there are many rules and processes which need to be taken into consideration, and these requirements can often seem daunting at the start of a new venture.

We have produced this guide to act as a general summary of the trading structures, direct and indirect taxes, and main employment issues that businesses need to be aware of when establishing new operations in the UK.

No such guide can be fully comprehensive and as such, can be no substitute for professional advice. MSI member firms in the UK will be delighted to introduce you to our experts who can provide advice specific to your circumstances.

Our UK MSI member firms have the breadth of expertise to ensure that your business is in full compliance with UK laws, leaving you to concentrate on growing your core business activities.

Population

The UK has a total population of 67.5 million inhabitants (Source: *Office for National Statistics 2019*).

Government

The United Kingdom of Great Britain and Northern Ireland (the UK) is made up of four countries: England; Wales; Scotland and Northern Ireland.

The UK is a constitutional monarchy governed by a parliamentary democracy, which combines a monarch Head of State with a parliamentary system. The reigning monarch, currently Queen Elizabeth II, does not hold political power. All political decisions are made by the elected Parliament.

Frequently, different Acts of Parliament apply to Northern Ireland and Scotland from those that apply to England and Wales. Scotland has its own parliament able to establish its own laws in certain matters and in Wales, the Welsh Assembly has some limited law-making powers.

The countries in the UK are divided into 650 parliamentary constituencies, each of which elects a Member of Parliament at General Elections as representatives in the House of Commons.

Whilst broadly speaking England and Wales share the same laws and legal processes, Northern Ireland and Scotland are different territories or 'jurisdictions'.

Both Northern Ireland and Scotland have separate legal systems and, in many respects legal, procedures are significantly different from those applying in England and Wales.

The UK has been a member of the European Union (EU) since 1973, although it chose to remain outside the Economic and Monetary Union. However, on 23 June 2016, a referendum of UK citizens voted to leave the EU. The deadline for the UK leaving the EU is 31 October 2019.

Languages

English is spoken across the UK, but it is not the only official language. You may also occasionally hear:

- Welsh in Wales
- Gaelic and Scots in Scotland
- Irish and Ulster Scots in Northern Ireland

Currency

The national currency is the British Pound (£).

Economic summary

GDP per capita: USD 46,256 [1]
Unemployment rate: 4% of labour force [1]
Inflation: 1.9% [2]

[1] Organisation for Economic Co-operation & Development 2018
[2] Office for National Statistics 2019

Time zone

The standard time zone is Greenwich Mean Time (GMT), which is in use from the last Sunday in October to the last Sunday in March. British Summer Time (BST), which is an hour ahead of GMT, is in use for the rest of the year. The UK shares GMT with Ireland, Portugal and Iceland, but is otherwise one hour behind most other EU states.

Economic overview

Main sectors of the economy

The UK, a leading trading power and financial centre, is the world's fifth largest economy[1]. London remains Europe's largest financial marketplace, on a par with New York. London is also home to the headquarters of many multinationals, with several other international financial services businesses headquartered in Edinburgh.

Source

[1] https://datacatalog.worldbank.org/dataset/gdp-ranking

[2] http://www.doingbusiness.org/en/rankings

Ease of doing business in the UK

The World Bank 'ease of doing business' index ranks economies across ten different indicators using as a case study company, a medium sized manufacturing business. The indicators include amongst others: starting a business; getting credit; registering property; enforcing contracts and resolving insolvency. The most recent report, Doing Business 2018 ranks the UK at number nine out of 190 economies[2]. In Europe, only Denmark and Norway have a higher ranking.

EU country/ Non-EU and its impact on businesses and investors

The UK is currently a member state of the EU. However, on 23 June 2016, following a referendum on the UK's membership of the EU, 52% of UK citizens voted to leave the EU.

Whilst negotiations continue on the terms of the UK's exit from the EU, EU Law continues to apply to the UK. Additionally, if the UK secures an exit deal with the EU, a negotiated transition period would be in place where current trading arrangements between the EU and the UK would continue.

The transition period is a mechanism to give time for a new deal on the future relationship between the EU and the UK to be worked out after the UK leaves the EU. During the transition period, the UK will continue to abide by the EU's rules and be subject to the rulings of EU courts.

Setting up a business

There are a number of business structure alternatives open to an overseas business which wishes to do business in the UK:

- sole trader
- establishing a branch office (permanent establishment)
- incorporating a private company limited by Shares (limited company)
- incorporating a public limited company (PLC)
- incorporating a limited liability partnership (LLP)
- acquiring an existing UK company.

As well as legal, tax and regulatory considerations, there are several commercial factors to consider when deciding which of these alternatives is the most appropriate, such as, available funding and resources, size and permanency of the UK operation and the level of risk to be incurred.

Type of business structure: sole trader

Characteristics: Requiring minimal set up and administration. Registration at Companies House (the UK's public organisation that maintains the national record of companies operating in the UK) is not required although the business owner should notify HMRC. This type of business is not deemed to be a legal entity in its own right, consequently the owner of the business has unlimited liability to all debts and legal actions.

Whilst sole traders benefit from fewer regulations and reduced filing requirements, the personal risk associated with this type of business may act as an incentive to register as a limited company.

Compliance requirements: Filing self-assessment tax return to HM Revenue & Customs (HMRC) each year. Possible VAT and Employment Taxes filing requirements. No audit requirement.

Type of trading structure: establishing a branch (permanent establishment)

Characteristics: A branch is not a separate legal entity. A branch is an extension of the overseas company operating in the UK. A branch usually has some form of physical presence in the UK, such as business premises and/or engaging UK employees.

In the early stages of expansion into the UK, an overseas company may choose to use the branch office route. A branch is relatively easy to establish providing the overseas entity has a fixed or permanent base from which it conducts its business in the UK. Certain particulars of the foreign company and details of the UK establishment have to be registered with Companies House.

Any contractual arrangements or liabilities entered into by the UK branch are binding on the overseas company and the UK establishment is subject to UK laws and taxes.

Compliance requirements: The UK establishment is subject to certain trading disclosures and will usually be required to file annual accounts in the English language with Companies House. These will be the accounts of the overseas entity and after filing, these are open to public inspection. The branch will also be subject to UK tax but only on profits attributable to the branch. There may also be Transfer Pricing requirements as transactions with connected companies need to be on arm's length terms. Possible VAT and Employment Taxes filing requirements.

Type of trading structure: private company limited by shares (limited company)

Characteristics: A private limited company is a legal entity in its own right and is separate from those who own it in the eyes of the law. This is a major benefit as the liability of the shareholders is limited to their investment and any unpaid shares they own. The personal assets of a shareholder are not exposed if a limited company is dissolved.

Due to the limited liability, potential tax advantages and simplicity of operation, private limited companies are an attractive proposition for an overseas company looking to establish a business in the UK.

Once the company is incorporated, information regarding the filing history and current appointments is made publicly available on the Companies House register. This affords limited companies with a level of transparency which is regarded as a significant advantage when doing business. Separate legal entity status also enables the company to enter into contracts directly and offers the parent company protection from the subsidiary's liabilities.

Compliance requirements: Every year a company will need to prepare and file its statutory accounts with The Registrar of Companies at Companies House, drafted in accordance with UK company law and UK GAAP. Once filed, these documents are available to be viewed by the public. All accounts need to be filed within nine months of the company's financial year end or alternatively within 22 months of it being formed. The company will be subject to corporation tax requiring the preparation of corporation tax returns. The company is likely to have VAT and Employment Taxes filing requirements.

Type of trading structure: public limited company (PLC)

Characteristics: In parallel to its private counterpart, PLCs exist as legal entities in their own right. Furthermore, the liability of the members is limited to their investment and the value of their shares. In contrast to a private limited company, the shares of a PLC can be traded in the public market and used to raise finance.

The operating costs of running a PLC are considerably higher than private companies and this structure is generally suited to larger enterprises. A minimum of £50,000 (or the prescribed Euro equivalent) worth of shares must be issued before a company can be registered as a PLC. It is also a legal requirement for at least two directors to be appointed.

Each allotted share must be paid up to at least one quarter of its nominal value together with the whole of any premium on allotment. So, the persons subscribing for shares in a PLC must together put in at least £12,500 before the company can commence business.

Compliance requirements: Statutory financial statements are required to be filed at Companies House within six months of the company's financial year end. A PLC is required to have an audit irrespective of the level of turnover, gross assets or number of employees.

A PLC will be subject to corporation tax requiring the preparation of corporation tax returns. The company is likely to have VAT and Employment Taxes filing requirements.

Type of trading structure: limited liability partnership (LLP)

Characteristics: Limited liability partnerships (LLPs) have been in existence in the UK since 2000 and have become increasingly popular. They have been widely adopted across various sectors e.g. insurance brokers and professional services firms. Like a limited company, an LLP is a body corporate which has a separate legal personality and is governed by the provisions of the Limited Liability Partnerships Act 2000 and Companies Act 2006. It is therefore an alternative to a simple company limited by shares.

An LLP is deemed to be transparent for UK tax purposes and therefore tax will be assessed on the members individually rather than on the LLP entity.

Compliance requirements: Audits are also required for LLPs in line with the same thresholds that apply to limited companies. The LLP (although tax transparent) will be required to prepare a partnership return and is likely to have VAT and Employment Taxes filing requirements.

Type of trading structure: acquiring an existing UK company

Characteristics: Acquiring a business can be a great way to get into a new market. The ongoing legal, accounting and tax requirements of an acquired company will be exactly the same as those for a company which has been set up from scratch

Compliance requirements: There are some important factors that you need to bear in mind before you acquire an existing UK company. Buying a business can be an extremely lengthy process. It is crucial that enough time is set aside for due diligence. It is likely that any business will have existing contracts in place, for example, with suppliers and any new owner will likely have to honour or renegotiate these.

Buying a business will almost certainly involve paying for professional services such as lawyers and accountants.

Even with the most extensive due diligence conducted, businesses can have hidden problems that the new owner might not grasp until later.

Process of how to set up a business

The process of setting up a limited company in the UK is straightforward and can take up to a couple of days. Companies can be incorporated online through the Companies House website or there are several specialist agencies that can offer company formation services. There are no requirements that any of directors or shareholders of the limited company need to UK residents. A limited company can be established with £1 of share capital.

Financial year of taxes and financial accounts

Companies and LLPs must file their accounts at Companies House within nine months of the financial year end for a private company and LLP and six months for a plc

All companies and organisations subject to corporation tax must file their corporation tax return online within twelve months of the company's financial year-end and pay any corporation tax and related payments are generally due electronically nine months after the company's financial year end (although there is an accelerate payment regime for "large" companies).

Accounting and auditing

In circumstances where the limited company is a parent company of a group for which two of the below three thresholds are exceeded for the group, then consolidated accounts may be necessary.

A statutory audit may also be required if again two of the three thresholds are exceeded. The thresholds are:

- Gross revenues exceed £10.2 million
- Gross assets exceed £5.1 million
- There are more than 50 employees in total.

A statutory audit may also need to be carried out if the company is part of a group that includes a public limited company.

Economic and fiscal incentives

Research and Development (R&D) tax credits: The UK Government provides generous tax incentives to encourage companies to undertake R&D projects. R&D tax credits are available to companies that spend money developing new products, processes or services; or enhancing existing ones. The general rule of thumb is that such products, processes and services cannot be easily created or readily available 'off-the-shelf' and involve a project that seeks to resolve a scientific or technological uncertainty.

UK Patent Box: The Patent Box regime was introduced in the UK in 2013 as a tax incentive to businesses to make profits from their patents, by reducing the tax paid on those profits. The aim of the scheme is to promote innovation and R&D across UK businesses, encouraging them to commercialise their patents and R&D in the UK.

Those businesses which qualify for the scheme will benefit from an effective Corporation Tax rate of 10% on income deriving from the commercial exploitation of patents. The reduced rate applies to profits earned after 1 April 2013 from a company's patents and other innovations. The Relief has been phased in over four years, so full relief on all Patent Box profits finally came into force in 2017.

Taxation

At 19%, the UK's corporate tax rate compares favourably against most other EU countries. This rate is set to fall further to 17% from 2020.

Much like many advanced economies, the UK is looking to stimulate investment into the country. One way the Government are doing this is to reduce Corporation Tax to just 17% from 2020. Even at its current level of 19%, the figure is still nearly six percentage points lower than the OECD average.

Ease of doing business – Paying Taxes (Rank) **23**[1]	Personal Income Tax (Rate) **20-45%**[2]
Corporate Income Tax (Rate) **19%**[2]	Value Added Tax (Rate) **20%**[2]

Sources:
[1]World Bank Group, 2018
[2]UK Government, 2018

Corporation Tax

Companies with a permanent establishment (i.e. branch) in the UK are subject to corporation tax on the total taxable profits attributable to the permanent establishment. UK tax resident companies are generally taxed on their worldwide income although elections are possible to exempt the profits (and losses) of overseas permanent establishments of the UK tax resident company. Corporation tax rates are set annually. The corporation tax rate for the year commencing 1 April 2017 is 19%.

When is corporation tax due?

Corporation tax is generally payable annually, nine months after the end of the accounting period.

A large company (broadly one whose annual profits exceed £1.5 million) however must pay corporation tax in quarterly instalments commencing six months and 14 days into the company's accounting year. From 1 April 2017, very large companies (ie those with taxable profits exceeding £20 million) are required to make quarterly instalments commencing two months and 14 days into the company's accounting year.

The profits of a UK branch of an overseas company are subject to tax at the same rates of corporation tax as a UK tax resident company. The UK does not impose withholding tax on dividends or post tax profits transferred by a UK branch to its head office.

VAT

In the UK, VAT is a tax levied on the sale of most goods and services. VAT registration is mandatory if your taxable turnover is £85,000 in any 12-month period. If turnover is below £85,000, then a voluntary registration may still be possible. The standard VAT rate is currently 20%. Some goods and services are subject to a reduced rate of 5%, like certain construction works, whilst others are subject to a zero-rate of 0% such as food. Some services are exempt from VAT such as financial services and property transactions. VAT registration allows a company to claim back any VAT that a company has been charged on business purchases used in making taxable sales (subject to some specific rules). Therefore, a voluntary registration can be a good idea to achieve a cash flow benefit in the early stages of company setup. VAT returns are typically submitted on a quarterly basis.

The process for registering for VAT is relatively straightforward and can be completed in four weeks. The most common reasons for this process being delayed include not having a director of the company based in the UK, not having a physical office space registered in the company's name and not having a UK bank account or no evidence that sales will arise in the near future.

VAT: Making Tax Digital

Making Tax Digital (MTD) requires specific entities to keep certain records in a digital format and submit their returns digitally. Please note this is not the same as submitting returns electronically as is now the case.

All entities which are mandatorily VAT registered will be subject to MTD from their first VAT return starting on or after 1 April 2019 (October 2019 for entities in deferred categories).

Entities which are VAT registered, but which are registered on a voluntary basis ie their taxable turnover is less than £85,000, are not subject to MTD (zero-rated supplies are taxable for this purpose). However, where an entity is above the VAT registration limit and is subject to MTD, but its taxable turnover subsequently drops below the limit, it must remain within MTD unless it deregisters from VAT.

Withholding Taxes

The UK operates a withholding tax regime with regards to interest, royalties, payments/fees for intellectual properties and capital gains on UK sited property (including shares in companies that are UK sited property rich).

Broadly the UK's domestic rate of withholding tax is 20%. Although the UK has a comprehensive double tax treaty network which usually results in a significantly reduced tax rate. EU law may also apply to exempt the payment from UK withholding tax. In most cases a claim must be made to HMRC to be eligible for the reduced withholding tax rate or exemption.

HR/ Labour Law

Employment law

There are a number of factors to consider when employing staff for the first time:

- Deciding on rates of pay – note that companies are legally obliged to pay the National Minimum Wage to any employee. The minimum wage depends on the employee's age and if they are an apprentice.
- Check if the employee has legal right to work in the UK.
- Tell HMRC by registering as an employer – registration can take place up to four weeks before new staff are paid.

Employment Tax – PAYE

All businesses which employ staff need to be registered for Pay As You Earn (PAYE). This is the system that HMRC uses to collect both Income Tax and National Insurance Contributions (NICs) from a firm's employees (deducted from their gross pay) and employers.

The PAYE collected is payable each month to HMRC within certain time constraints. It is important to be aware that late payments will incur interest and potentially penalties. The tax which is deducted from salaries is Income Tax. The rates vary depending on the amount of money an employee earns. The new income tax rates and thresholds for 2019-20 are detailed below:

Income Tax	Taxable Bands	Tax rate
Personal allowance	Up to £12,500	0%
Basic rate	£12,501 to £50,000	20%
Higher rate	£50,001 to £150,000	40%
Additional rate	Over £150,000	45%

Different rates apply in Scotland

Source: HMRC

National Insurance Contributions ('NICs')

NICs are deducted from employees' earnings at the same time as Income Tax, and the employer pays an additional fixed percentage of the pay as employer's NIC. Employees do not benefit from any tax relief on the NIC they pay.

NIC rates are laid out in the table below:

National Insurance Contributions	Employee	Employer
Main NIC rate	12%	13.8%
No NIC on first	£166pw	£166pw
Main rate charged up to	£962pw	No limit
2% rate on earnings above	£962pw	N/A
Employment allowance per qualifying business	N/A	£3,000

Source: HMRC

There is a nil rate of employer NIC for employees under the age of 21 and apprentices under 25, up to £962 per week.

Benefits in kind

Most benefits in kind (non-cash compensation) will be subject to tax at the employee's marginal rate of tax. The employer will also be liable to Class 1A NIC, which is currently charged at a rate of 13.8%. Details of any taxable benefits provided are reported to HMRC on a form P11D which needs to be submitted by 6 July following the end of the tax year. The Class 1A NIC liability is due for payment by 19/22 July every year.

Employers may arrange for the tax due on any taxable benefits to be accounted for via the payroll. This is currently a voluntary arrangement between the employer and HMRC.

Pension auto-enrolment

Under UK employment law, most workers must be automatically enrolled into a workplace pension scheme by their employer when they start work. Employees can personally opt out in the first month and if they do not they will be automatically enrolled in the scheme.

Once an employee is enrolled, both the employer and the employee must make monthly pension contributions to a qualifying pension scheme (in addition to paying NIC). For employers the minimum contributions in 2019/2020 are 3% of earnings between £6,136 and £50,000 but this is a tax deductible expense for the business. Employees must contribute 5% but will also get tax relief on this. These figures are reviewed each year by the Government.

Payroll

All UK payrolls must operate under Real Time Information (RTI). This means that all employees' pay and deductions must be reported to HMRC on or before each payday.

To set up a payroll, a business must first register as an employer with HMRC. The business will then need to choose a payroll software that is recognised by HMRC. Employers must collect employees' details (e.g. full name, address, date of birth, and National Insurance number) and keep these for a minimum of three years after employment has ended. HMRC must be informed about new employees. Employers can use the new starter checklist to provide the information and register them on the payroll using the monthly Full Payment Submission (FPS).

For each pay period, employers must report and record their employees' pay, including any deductions (e.g. NIC). Employers must also record the employer's NIC payment. This should all be reported on payslips and reported to HMRC on the FPS.

Incentivising employees through share options

Share option schemes are used by companies to achieve their goals of recruiting, incentivising and retaining talented people. Share option schemes are commonly used by employers to provide shares to employees

Under a share option scheme, a company grants the employee the right to acquire shares at some point in the future by exercising the option at a price determined at the date of grant. The ability to exercise the option may be contingent on a future event, such as a sale, or the employee meeting certain performance targets. If the company is successful, the value of the shares will increase, and the employee will benefit by being able to acquire the shares at the originally agreed price.

From a tax perspective, certain share schemes attract UK tax advantages, with an EMI scheme (Enterprise Management Incentives) generally being the preferred scheme provided that certain qualifying conditions are met. Where the rules are met the employee's option/share gains are only taxed at 10%.

Visa and work permits

EU nationals, Swiss nationals and EEA nationals have a right to live and work in the UK. People from outside the EU, Switzerland and EEA must apply for a work permit before taking employment in the UK. Employers who wish to employ such workers need to become licensed sponsors.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in the UK should seek professional advice from our member firms before making any business or investment decision.

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