Morison KSi

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June 2018

Doing Business Guide
UK

Morison KSi

About This Guide

This guide has been produced by the Morison KSi UK member firm for the benefit of its clients and associate offices worldwide who are interested in doing business in the UK.

Its main purpose is to provide a broad overview of the various issues that should be considered by organisations when setting up business in the UK.

The information provided cannot be exhaustive and – as underlying legislation and regulations are subject to frequent changes – we recommend anyone considering doing business in the UK or looking to the UK as an opportunity for expansion, should seek professional advice before making any business or investment decision.

While every effort has been made to ensure the accuracy of the information contained in this guide, no responsibility is accepted for its accuracy or completeness.

The information in this guide is up to date as at the edition date.

For more information, please contact:

Kingston Smith
www.kingstonsmith.co.uk

Jon Sutcliffe
jsutcliffe@ks.co.uk
+44 20 7566 4000

Devonshire House
60 Goswell Road
EC1M 7AD London
United Kingdom

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Introduction

Why the UK?

The UK is the number one destination for foreign direct investment in Europe, attracting the highest number of foreign direct investment (FDI) projects and receiving the largest value of FDI net inflows in 2016-17 in Europe. Across the country, 2,265 inward investment projects were secured in that period, leading to more than 100,00 jobs being created or safeguarded in the UK. USA is the leading investor region, followed by France, Italy and Canada. All these facts clearly demonstrate one thing – the UK is one of the leading preferred destinations for internationally-focused companies looking to expand their global footprints.

The UK, being the 6th largest economy worldwide in terms of national GDP, and one of the largest trading nations, helps to position the country at the forefront of business attractiveness. Its geographical position allows international companies to use the UK as a springboard into Europe and the rest of the world, in addition to the access to talent, ease of doing business, huge infrastructure and good transport links, which are key factors for global businesses to succeed.

The UK government seeks to attract and support foreign companies, entrepreneurs and talented individuals through various incentives such as R&D tax credits, decreasing corporation tax rates, and friendly visa options which enable them to accelerate their business growth in this very important market.

Post the economic slowdown in the last decade, the UK has come back strongly and continues to provide a stable economic environment, with a transparent regulatory and legal environment that is welcomed by local and international businesses.

The service sector dominates the UK economy, contributing around 79% of GDP. The financial services industry is particularly important and London is the world's largest financial centre. The City, a term used to describe the UK's collective financial and related business services industry, is a world leader. It is at the heart of the world's financial markets and is a vital asset to the British and European economies.

Historically, the UK has had a very strong manufacturing background and is home to some of the biggest companies such as Rolls Royce, Unilever, GSK and Rio Tinto. With many of the biggest manufacturers present, the UK supply chain has gone from strength to strength, as well as a growing distribution hub enabling companies to easily navigate and transport their goods through our ports, railways and international airports.

The UK's technology sector has also boomed significantly with the creation of *Tech City*, widely known as the "UK's Silicon Valley", housing some of the unicorns of the business world and emerging high-growth companies. The UK experienced a record year for tech investment in 2017 as Europe's leading country for global tech investors. As London remains the world's largest centre for fintech, UK fintech firms are expecting extreme growth over the next few years.
Over and above all these factors, the process to set up a new business in the UK is a very quick, which allows foreign companies to get off the ground quickly and start focusing on achieving their business objectives.

The economy

As of date, the UK economy is the 9th largest in the world, measured by purchasing power parity. Despite the UK's vote to leave the EU, Britain was the second fastest-growing economy in the Group of Seven (G7), narrowly beaten by Germany.

The economic growth in the UK has been primarily fuelled by a robust domestic demand, in particular from acceleration in private consumption, which benefited from low inflation and an improvement in employment opportunities.

The Bank of England base is announced by the Bank of England's Monetary Policy Committee every month and is currently at 0.5%, having increased from 0.25% in November 2017.

The pound sterling (£) has remained reasonably stable against the US dollar and euro, thus providing a stable and competitive environment for global companies trading with the UK.

The UK corporation tax is 19% and set to reduce to 17% by April 2020/21, thus very competitive when compared to other countries, and below the average for the EU.

The UK also has one of the largest tax treaties networks in the world. Its aim is to eliminate double taxation for foreign companies and individuals that are subject to tax in two or more jurisdictions. This is significantly advantageous for international business, enabling them to conduct business in a tax-friendly manner.

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Business Structures

Choosing the right structure

Once you have taken the decision to set up in the UK, there are various legal structures you can adopt to start your business. The most appropriate structure will depend on a combination of your commercial objectives, the degree of permanency required in the UK as well as legal, accounting and tax considerations. Generally, businesses have preferred the following structures for their UK entry (please see Table 1).

The private limited company is the most common type of corporate entity in the UK. The liability of its members is limited to the issued share capital, which could be as low as £1. The company requires a registered office in the UK and at least one director, for whom there is no residency requirement. Also, there is no longer a mandatory requirement for companies to appoint a company secretary. Every UK-registered company is required to file accounts at Companies House and these become available for inspection by the public. A private limited company has to file accounts within nine months of its period end or become liable to automatic penalties. The accounts also need to be audited if certain thresholds of turnover, gross assets and number of employees are exceeded.

Setting up a UK subsidiary can take as little as 48 hours and is a very quick and simple process.

Table 1: Advantages and disadvantages of business structures

Business structure	Advantages	Disadvantages
Sole trader Sole traders are self-employed for tax purposes and do not need any formal constitution. You will have to prepare annual accounts as the basis of the profits to be included in your Self Assessment Tax Return.	• Few formalities • Greater flexibility • Taxed as an individual but differently from an employee • Lower National Insurance than while being employed • Start immediately • No audit requirement	• Unlimited personal liability for business debt • If the business fails owing money, you could be declared personally bankrupt. • For VAT registration purposes, all the business activities of a sole trader are aggregated. • Potentially higher tax rates on profits reinvested
Partnership If you form a partnership, you and your partners are individually self-employed for tax purposes, with profits allocated in profit sharing ratios.	• Draw on talents of others • Relatively unrestrictive • National Insurance the same as for a sole trader	• Share the profits and set-up costs • Jointly and severally liable for business debts • Not in sole control
Limited liability partnership (LLP) In broad terms, this is a cross between a partnership and a limited company. You can organise your business and pay tax in exactly the same way as if you were an ordinary partnership.	Similar to partnership but: • Personal liability is limited unless responsible for partnership's bankruptcy. • Greater flexibility on introducing or repaying capital • The agreement between the members on sharing profit and managing the business, etc., is a private document.	• Have to notify Companies House of the business address and the names of the partners • Accounts must be on public record every year and they need to be audited if the statutory audit threshold is exceeded. • All profits are taxed on the partners at rates of up to 45% plus National Insurance so not as effective as a company if profits are retained in the LLP.
Public limited company (PLC) Limited companies are incorporated under Companies Act 2006. To form a limited company you need at least one shareholder and at least one director. It is a requirement for companies to maintain a register with Companies House, including filing an annual return of directors' and shareholders' details. Kingston Smith can organise incorporation and maintain all the registers that a business needs.	• Not normally personally liable for company's debts • Enhanced business image • Various tax reliefs, including those for R & D are only available to companies. • Normally set up in a matter of days • For VAT purposes, a limited company is not aggregated with other businesses, as are different businesses carried on by individuals.	• More formal and restrictive • Not normally allowed to borrow money from the company • Accounts must be prepared in a statutory format and filed with Companies House; they may have to be audited if you exceed the statutory audit threshold.
Branch Simply an extension of the overseas entity	• Losses in a UK branch may be relievable in the home country. • No requirement to prepare or file UK financial statements or have a UK audit	• The accounts of the whole overseas company will need to be filed at Companies House. • UK customers may prefer to deal with a UK company. • A branch constitutes a business establishment for VAT purposes.

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Labour and Personnel

Attracting employees

The UK is known for its skilled and talented workforce, and being able to retain employees is critical to a business' success.

There are a number of different routes to attract the type of employees the business needs – including entering into partnerships with local universities to attract and work with the top students and graduates, and offering internships and placements, which can be less expensive for the company but which might be less suitable if the company requires candidates with a specific level of experience.

Recruitment agencies offer a quick and less stressful way of identifying employees, and established or specialised agencies will normally have good talent pools of potential candidates. This method may be more expensive but a good way to get off the ground.

The government runs an employment agency, Job Centre Plus, and this can identify candidates, although it may be difficult to identify candidates that have a track record using this route.

Other routes include social media and online advertising boards – it is important to consider the type of candidates you want to target and to use specific platforms that can enable this.

There are also helpful visa options which enable foreign companies to send their employees to the UK and work for the UK entity.

Employment

Employment is one of the key considerations when setting up in the UK. How you choose to operate, manage and incentivise your staff is important for the success of the business.

Employment contracts

It is a legal requirement for businesses to provide their employees with an employment contract. There are different types of employment contracts that are available in the UK, including casual and internships, although the following three are most commonly used:

- Temporary contracts: This type of contract is good if you are in need of short-term workers. It provides flexibility and allows you to adjust for increases or decreases in staffing level requirements. You may choose to work with a recruitment agency, who will normally manage the payment of wages and all the administration procedures, meaning you are recruiting agency workers and not hiring yourself.
- Fixed-term contracts: Fixed-term contracts allow you to hire employees for a specific time period so you can plan according to a fixed time and budget. This type of contract is good for a specific assignment/project or if you require someone for an agreed period of time.

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- Permanent contracts: This requires commitment from both the employer and employee, and is the most common type of employment. This is an indefinite contract and can be terminated by the employee when they no longer wish to work for the current employer or (subject to certain protections) by the employer.

Employment rights in the UK differ significantly from those in other parts of the world and may appear contradictory in some cases. Typically, employees have certain rights from the point of application, not the point of recruitment. There is no fire at will in the UK, although in some instances employees may have their employment terminated within the first two years without a strong reason. Correctly worded employment contracts will outline the majority of the legislation employers are working towards so it's always advisable to take advice before terminating employment.

Employee benefits

As businesses establish themselves in the UK, getting the employee package right is the difference between attracting and retaining the best talent or making do with average employees. Setting it too low may not attract and retain the best employees, whilst setting it too high may jeopardise your cash flow and set the wrong structure internally.

There are a number of options you can consider, both financial and non-financial including:

- Bonus scheme: Bonus schemes can be either contractual or non-contractual depending on how they operate within your business. You may not have one in place or you may, indeed, have one which may not be achieving the desired results. These can be used not only as a tool to motivate your workforce but also with the clear objective of adding to the bottom line.
- Commission payments: Particularly for employees in a sales function or those who otherwise have a direct impact on income generation, you could implement a commission scheme. These schemes are usually contractual and have a on-target-earnings (OTE) element, in addition to the annual salary. Generally, the basic annual salary is set low and the rest can be made up in commission payments.
- Learning and development/ training: Most training is on the job and a necessity for the employee to perform their duties. However, offering training to further enhance an employee's skills can not only benefit the organisation but also be viewed favourably by the employee.
- Appraisal: Aside from discussing remuneration, these can be used as a tool for managers to understand the wider drivers and motivators of their employees. By discussing the business with employees, they can be motivated and encouraged to come up with suggestions for staff development and improved working practices, increasing autonomy and engagement without high-cost implications.
- Medical benefits: Although you may not have the funds to offer private medical care for employees, many large providers may offer a group discount and your employees could elect to pay for this insurance.
- Pensions: Auto-enrolment of employees into pension schemes is now applicable to all businesses but you will still need to consider if you will contribute the minimum amounts required or if you will offer an enhanced percentage as an additional benefit.
- Corporate gym membership: If your employees are gym goers, conversations with your local establishments could provide your employees with a discount and usually will not cost you anything.
- Company cars: Where an employee is provided with a car for their personal use, a taxable benefit-in-kind will arise in the employee's hands. The taxable amount is calculated as the manufacturer's list price of the car when new, multiplied by a percentage that is based on the CO_2 emissions figure for the car and the type of fuel. The amount the employer actually pays for the car and the amount of private use the employee has are irrelevant in determining the taxable amount.

  If the employer also provides fuel for private use, this gives rise to a further taxable benefit which is calculated as £23,400, multiplied by the same percentage used to determine the company car benefit.
- Share options: Operating a share scheme can help you achieve your goals of recruiting, incentivising and retaining the right people.

  The most common way of providing shares to employees is by using a share option scheme under which 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.

  Certain share schemes come with UK tax advantages, with an Enterprise Management Incentives (EMI) Scheme generally being the preferred scheme where the qualifying conditions are met.

Pay As You Earn (PAYE)

A UK employer is required to process payments to employees through a registered payroll scheme and, where applicable, to withhold tax and National Insurance contributions at source. Details of amounts processed through the payroll scheme and tax and National Insurance contributions must be provided by the employer to HM Revenue & Customs.

International Mobility

There are a number of different visa options that are available to international companies and entrepreneurs looking to come to the UK. It is important to understand the criteria and requirements of each type of visa as these vary. The table below outlines the different types of visa available. For more details consult www.gov.uk.

Table 2: Visa types

Visa type	Requirements	Long term	Duration
Representative of an Overseas Business visa An overseas business based outside the European Economic Area and planning to send a senior employee to set up and run their UK office can apply for this visa.	Be the sole UK representative of an overseas company and be responsible for running the new UK office Applicants must not be majority shareholders of the parent business.	Individuals can come to the UK for an initial period of 3 years. Individuals may be able to extend for a further 2 years. After 5 years the individual may apply for permission to settle permanently in the UK.	The sole representative can apply for a visa up to 3 months before travel. A decision is normally made in 2-4 weeks of application.
Tier 1 (Entrepreneur) visa Ideal for individuals who would like to set up and/or run a business in the UK. There are no restrictions on the size of shareholding in the new business.	Applicants should have access to £200,000 funds (in limited cases – £50,000) and must be able to prove that the money is: • their own • made available to them by other people (third parties), e.g. a husband, wife, civil partner or investor • in a joint account with their spouse or partner but only if they aren't themselves applying for a Tier 1 (Entrepreneur) visa.	A 40-month visa, extendable by a further 2 years; permanent residency after 5 years but can be accelerated in some circumstances To extend the visa, it must meet a number of requirements such as creating 2 jobs that must last over a period of at least 12 months.	2–8 weeks from application (can sometimes take several months)
Tier 1 (Exceptional Talent) visa An individual can apply for a Tier 1 (Exceptional Talent) visa if they have been endorsed in the field of science, humanities, engineering, medicine, digital technology or the arts as a recognised leader (exceptional talent) or an emerging leader (exceptional promise).	This is a 2-step process; initially the individual must apply for endorsement by a competent body approved by the home office as a leader in their field, and then apply for appropriate visa following the confirmation of endorsement. The endorsement must be from one of the designated endorsing bodies: Arts Council England, British Academy, Royal Academy of Engineering or Royal Society.	The individual can stay in the UK for up to: • 5 years and 4 months if they apply outside the UK • 5 years if they apply in the UK After 5 years, the individual can apply for permanent residency.	The process can take up to 3 months depending on the time of endorsement.
Tier 1 (Exceptional Talent in Digital Technology) visa / Tech Nation Visa Rrecently launched to attract global digital tech talent to the UK. This is a 2-stage process and there are 200 endorsements available every year.	The visa can be obtained via 4 routes: • Recognising Exceptional Talent/Promise – track record in digital tech with technical or business experience • Empowering the North – for digital tech migrants who will work in a digital tech role or set up a digital tech business in Hull, Leeds, Liverpool, Manchester, Newcastle, Sheffield or Sunderland • Bridging the Gap: building UK scale-ups – proven track record in assisting digital tech companies scale up • Relocating Teams – allows a UK digital tech business to recruit a team of up to 5 migrants to work on 1 project	The visa is granted for 5 years and can lead to settlement. The individual can be either employed or self-employed.	Approximately 2 weeks from application
Tier 2 visas Tier 2 visa options are a route for skilled workers who are based outside the European Economic Area.	If the individual is applying for entry under this visa scheme, they must be in possession of a job offer and a Certificate of Sponsorship from a UK employer who holds a valid Tier 2 sponsor licence. In each case, the individual must also fulfil the requirements of the particular Tier 2 visa for which they are applying. The UK entity will need to obtain a sponsor license to employ someone from outside the European Economic Area to work in the UK. A sponsor licence is valid for 4 years and renewable every 4 years.		Licence for UK entity: approx. 2-3 months from having first employee in the UK.
Tier 2 (General) visa An individual may apply for this visa if they have been offered a skilled job in the UK and are from outside the European Economic Area.	The job you are offered must pay £30,000 or more, or the current market rate. The individual must meet the English language requirement, hold a 'restricted' certificate of sponsorship and may need to conduct a prior health screen. New hires can only be sponsored where an appropriate and genuine Resident Labour Market Test (RLMT) has been conducted.	The individual can stay in the UK for a maximum of 5 years and 14 days, or the time given on your certificate of sponsorship plus 1 month, whichever is shorter. The individual can apply to extend this visa for up to another 5 years, as long as your total stay is not more than 6 years. Option to settle after 5 years	2–4 weeks from application; appropriate category of Tier 2 sponsor licence must be put in place first
Tier 2 (Intra-company Transfer) visa An individual may apply for this visa if the overseas employer has offered the person a role in a UK branch of the organisation.	Long-term staff applicants – at least £41,500 or the 'appropriate rate' for the role (whichever is higher) Graduate trainee (maximum 12-month visa) – at least £23,000 or the 'appropriate rate' (whichever is higher), at least 12-month employment with the overseas entity with the exception of an employee with a salary of £73,900 or 3-month employment for graduate trainees	A visa of up to 5 years in total (or 9 years if annual salary is at least £120,000); does not lead to permanent residency The maximum allowed for the visa is 5 years; once this has been reached the employee must leave the UK	2–4 weeks from application; appropriate category of Tier 2 sponsor licence must be in place

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Taxation System

This section provides an outline of the key UK tax considerations that apply to companies and individuals. It also contains specific implications for cross-border transactions.

Tax for companies

Corporation tax

It is not just UK resident companies that have to pay corporation tax. Overseas entities trading in the UK through a permanent establishment will be liable, too.

Corporation tax is currently at the relatively low rate of 19% and it is planned that this will be reduced further to 17% by 2020/21.

Companies that are subject to UK corporation tax must do the following to comply with UK regulations:

- File a corporation tax return within 12 months of the end of its accounting period
- Pay any corporation tax by the due date, which is normally 9 months and 1 day after the end of the accounting period but in the case of larger companies will be earlier as they pay their tax by quarterly instalments

Details of various tax incentives for companies are set out in section Grants and Incentives (page 12) of this document. Businesses coming to the UK will need to ensure that they set up their operations in the UK to ensure they do not pay any more tax than they need to – this is something that should be considered as early in the planning process as possible.

Value Added Tax (VAT)

Value Added Tax (VAT) is charged on the UK supply of most goods and services, and any trader whose taxable turnover exceeds £85,000 in a 12-month period has an obligation to register for VAT.

In general, for each VAT period (normally a quarter), the VAT paid by a registered trader (input tax) is deducted from the VAT charged on supplies (output tax), and the difference is either payable to HM Revenue & Customs or repayable by them.

This basic principle is modified if the supplies made by the registered person are not fully taxable.

There are two main rates of VAT – the standard rate (which is currently 20%), and zero rate – although there are complications and the VAT implications of a particular trading venture always need to be considered in their own right.

Annual Tax on Enveloped Dwellings (ATED)

ATED is an annual tax that is mainly payable by companies that own UK residential property valued at more than £500,000. The amount payable is based on the value of the property, and the charges for the year from 1 April 2018 to 31 March 2019 can be seen in Table 3.

There are certain reliefs from the charge which apply, for example, where the property is let to an unconnected third party on a commercial basis, where it is being developed for resale, or where it is open to the public for at least 28 days per year.

Table 3: ATED annual charges

Property value	Annual charge
£500,000-1m	£3,600
£1-2m	£7,250
£2-5m	£24,250
£5-10m	£56,550
£10-20m	£113,400
£20m+	£226,950

Tax for individuals

Income tax

Individuals may be subject to UK income tax on employment income, business profits (if for example they operate as a sole trader or member of a partnership/LLP) or on other income they receive (such as interest and dividends).

See Table 4 below for the rates which apply for an individual's taxable income.

Table 4: Income tax rates (excluding Scotland)

Tax rate	2018/19
Personal allowance (phased out as the individual's income exceeds £100,000)	0% on first £11,850
Basic rate	20% on next £34,500
Higher rate	40% on next £115,500
Additional rate	45% above £150,000

National Insurance contributions (NIC)

Individuals trading as sole traders or members of a partnership/LLP are subject to 2 different types of NIC, as follows:

- Class 2 NIC is paid at a rate of £2.95 per week.
- Class 4 NIC is paid at 9% of annual profits between £8,424 and £46,350, and at 2% of annual profits above £46,350.

Capital Gains Tax (CGT)

UK resident individuals are – with some exemptions – subject to UK CGT on any gains they make on capital assets (such as property, or shares in companies). Non-UK resident individuals are subject to UK CGT on gains made on UK residential property.

Individuals have an annual exemption of £11,700 but gains above that amount are subject to capital gains tax at rates of 10%, 18%, 20% or 28%. Assets that are exempt from CGT include:

- An individual's only or main home
- Cars
- Government gilts

Investments made under the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS) can come with income tax and capital gains tax reliefs, and details of these are set out in section **Grants and Incentives** (page 12) of this document.

Value Added Tax (VAT)

The comments made above in respect of VAT apply to unincorporated businesses (sole traders, partnerships) and LLPs just as they do to companies.

Inheritance Tax (IHT)

UK IHT can be charged when assets are transferred out of an individual's estate. Most commonly, this is applicable when assets are transferred upon an individual's death but it can also apply when assets are transferred in the 7 years prior to death, and in certain other cases.

Individuals who are UK domiciled or UK-deemed-domiciled (those individuals who have been resident in the UK at least 15 of the 20 tax years prior to the transfer) are subject to UK IHT on the chargeable transfer of any worldwide assets, whereas most other individuals are only subject to UK IHT on the chargeable transfer of their UK assets.

Chargeable transfers up to the nil rate band of £325,000 will not give rise to an IHT charge. In addition, there is an additional nil rate band of £185,000 which can be used against an individual's 'main residence'. Chargeable transfers in excess of these amounts will normally be subject to IHT at the main rate of 40%.

Certain transfers, including transfers between spouses or civil partners, and the transfer of certain shares or business assets which qualify for Business Property Relief, will not give rise to IHT.

Tax for employees

National Insurance contributions (NIC)

As well as being subject to income tax, salaries can also be subject to both employee's and employer's NIC. Table 5 below sets out the rates that apply to employees for the 2018/19 tax year:

Table 5: Employee NIC

Your pay	Employee's contribution
£162 to £892 a week	12%
Over £892 a week	2%

Employer's contributions are paid at 13.8% on earnings above £162 per week but there is an allowance of £3,000 per year that employers can offset against their employer's NIC liability.

Expatriate tax

Expatriate tax is an area where advice must be sought well in advance of an employee coming to the UK to ensure that opportunities are not missed, and that the employer's PAYE (income tax) and NIC obligations are met.

Bringing overseas staff to the UK:

- Short-term visitors to the UK: When non-UK employees visit the UK for short periods, even for just a few days, their salary (even if paid outside the UK) will fall within the UK employment tax system unless rules relating to Short-Term Business Visitors can be used.
- NIC exemptions for secondees: Where individuals come to work in the UK temporarily, there is normally a period of exemption from NIC, ranging from 1 to 5 years depending on the employee's home country.
- Temporary Workplace Relief: Where employees are temporarily seconded to work in the UK for a period of up to 24 months, they may be able to claim deductions from their taxable income for the expenses they incur as a result of their

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attendance at a temporary workplace. These expenses can include amounts spent on accommodation, Council Tax, utility bills, subsistence and travel to and from work.

- Overseas Workday Relief: In the first year of UK tax residence and the 2 subsequent years, an employee can split their income between UK and non-UK workdays. Provided the employee makes a valid claim and the income attributable to non-UK workdays is not received in or subsequently remitted to the UK, that income will not be taxable in the UK.

Tax considerations for cross-border transactions

Tax Treaty network

The UK has one of the largest double tax treaty networks, and a key aim of the treaties is to stop the same income or gains being subject to tax in more than one jurisdiction.

Transfer pricing

Increasingly, governments around the world are investigating transactions between connected parties with the aim of ensuring that no artificial advantage is taken of lower tax rates. The UK, like most countries around the world, requires the arm's-length price to be used in most cases for transactions between connected parties.

For general trading transactions, where open market price is readily available, assessing the arm's-length price is unlikely to cause problems. However, where there is no corresponding product or service in the market place, establishing open market value is not always straightforward and in such cases detailed analysis may need to be prepared and retained.

Diverted Profits Tax

The Diverted Profits Tax affects large multinational enterprises with business activities in the UK that enter into arrangements to divert profits from the UK by avoiding a UK taxable presence or by exploiting their position with connected entities. Where this applies, profits that have been diverted from the UK are subject to tax at a rate of 25%.

Banking and Finance

UK banking system

The UK's banking and financial services sector is very well established and offers a stable environment for businesses. Founded in 1694, the Bank of England is the central bank of the UK. Also known as the 'Old Lady' of Threadneedle Street, the Bank's mission is to promote the good of the people of the UK by maintaining monetary and financial stability. The current interest rate is 0.25% and is reviewed on a regular basis. Learning from the financial crisis in 2008, there has been a strong increased focus in the UK on the regulatory environment, implementing preventative systems and regular reviews with financial institutions to ensure that they comply with the Financial Conduct Authority, Prudential Authority and Basel III.

Setting up a UK bank account

For an overseas company, it is important to note that they should start the process of opening a UK bank account as soon as possible. As the banks are under increased pressure these days, they need to ensure that they minimise the risk by understanding the flow of cash between accounts and companies. With this in mind there are stringent identification processes and anti-money laundering checks in place.

To set up a UK bank account, the overseas company requires setting up the UK entity first. Below is an outline of the typical documentation and information required by any of the high-street banks in the UK, for setting up a UK bank account:

- **Application form:** The application form requests information on your company name, business activities, customers, turnover, size, directors, shareholders, and personal address.
- **Registration of the company:** The UK company will need to provide the UK registration number, and the overseas company will need to provide the certificate of incorporation.
- **Mandate for companies registered under the Companies Act:** This includes details of all the signatories to the account.
- **Identification and proof of address:** Either a bank statement or a utility bill can be used to verify addresses and identity. This will be required for all beneficial owners and principal controllers.
- **Company structure:** This will need to detail the ownership and the percentage share ownership of the UK entity.
- **Bank statements:** For newly registered subsidiaries of overseas parents, statements of

Many international banks have either a physical presence in the UK or partnerships established with UK banks. This means that the process for carrying out the required checks may take less time and can potentially speed up the process of opening a UK bank account.

the overseas parent company may need to be provided. If the business is new, the owners will need to provide the previous 3 months of personal bank statements – they must be certified or original copies.

- **Audited accounts:** The bank may request these if the business is planning on borrowing money from the bank.

There are a number of established banks such as HSBC, RBS, Barclays and Lloyds that have decades of experience in corporate and smaller businesses. More recently, challenger banks (such as Metro Bank) have been emerging offering services to start-ups and SMEs.

Many international banks have either a physical presence in the UK or partnerships established with UK banks. This means that the process for carrying out the required checks may take less time and can potentially speed up the process of opening a UK bank account. Opening a UK bank account can take approximately 2-3 months or more, depending on the complexity of the business.

UK financing sources

London, being one of the major financial hubs of the world, offers many fundraising avenues to international businesses. A business may wish to raise debt or equity funding, or a combination of both.

Debt finance

Debt finance is provided by an external lender such as a bank, building society or credit union. Financial institutions offer a range of finance products for both short and long term solutions. An example of some of these products includes business loans, asset financing, lines of credit and overdraft facilities.

There are other methods of raising debt finance such as through factoring companies, however, even though this is a quick method to raise cash from outstanding invoices, it can be expensive compared to other financing options. Others include trade credit via suppliers, high-interest loans through retailers and from friends and family.

Equity finance

There are a number of different routes to raise equity finance and it is increasingly a preferred route for many companies. Often companies 'bootstrap' at the beginning and self-fund the growth of the business through revenues generated and personal funds.

For many companies, private equity or venture capital firms is a popular route. The investor and venture capital firm will invest large amounts of funds into the business in return for a share of the company – venture capital firms normally have a larger controlling share of the business. In both cases they normally have industry expertise and often provide advice and management.

Other sources of finance

Peer-to-peer crowd funding is becoming increasingly popular for start-up businesses. It is part of the developing trend of disintermediation whereby the traditional intermediaries (such as banks and fund managers) between the borrower or target and the lender or ultimate investor are being pushed aside by direct relationships facilitated by new internet platforms.

Reporting Requirements

Accounting

Every UK registered company, limited liability partnership and non-resident company which trades in the UK through a permanent establishment is required to file accounts at Companies House and these are available for inspection by the public on the Companies House website. A UK private limited company has to file statutory accounts within 9 months of its period end and a public limited company needs to file accounts within 6 months of its period end.

The statutory accounts of a UK company are required either to meet the requirements of International Financial Reporting Standards (IFRS) or UK Generally Accepted Accounting Practice (UK GAAP). Most companies prepare their accounts in accordance with UK GAAP, which is based on the principles of IFRS.

It is important to note that penalties are incurred for late filing of accounts – the size of the charge will depend on the number of months late and the type of limited company as the fines are higher for public limited companies. If the accounts are very overdue, Companies House may seek to strike the company off the register.

Small companies

To qualify as small, a company must meet at least 2 of the following criteria for the current and previous year. There is a 1 year grace period for the first year in which the criteria are not met when the company can still qualify as small if it did in the previous 2 years. Small companies are also permitted to file less information at Companies House than larger companies.

Certain companies (public companies, financial services authorised companies and subsidiaries of companies listed on an EU regulated market) are exempt from the small company regime.

Table 6: Criteria for qualifying as a small company

	For periods beginning before 1 January 2016:	For periods beginning on or after 1 January 2016:
Turnover	<£6.5m	<£10.2m
Total assets	<£3.26m	<£5.1m
Number of employees	<50	<50

Audits

A small company that is in a small group can qualify for an audit exemption. The thresholds for a small group are as follows (before any intercompany eliminations):

Table 7: Criteria for audit exemption

	For periods beginning before 1 January 2016:	For periods beginning on or after 1 January 2016:
Turnover	<£7.8m	<£12.2m
Total assets	<£3.9m	<£6.1m
Number of employees	<50	<50

Please note the group figures need to include all of the group, not just the UK elements.

Grants and Incentives

Tax incentives for companies

The UK government is committed to be an attractive environment for foreign companies. This is reflected in the corporation tax rates for UK companies and in addition by some of the incentives outlined below:

Research and Development (R&D) Tax Relief

The UK's R&D tax regime is one of the most attractive in the world and there is evidence of the significant impact that the scheme has had since its inception in 2000.

The regime gives higher rates of corporation tax relief on qualifying R&D costs incurred by small and medium sized companies, and an Above The Line credit for larger companies. It also includes a repayable tax credit system, which can be a lifeline to early-stage businesses.

To qualify for R&D tax relief, your project must seek to achieve an advance in science or technology, through the resolution of scientific or technological uncertainty. Costs which qualify for the enhanced corporation tax relief, or the Above The Line credit, include costs relating to the project that have been incurred on staff, software and consumables.

Patent Box

The Patent Box is a tax incentive to encourage companies to locate their innovative activities and functions, and the resultant intellectual property, in the UK. The Patent Box rules offer a tax rate as low as 10% on the profits arising from exploiting qualifying patents.

Companies that are eligible for and have elected to be within the Patent Box are taxed at the reduced corporation tax rate on their 'relevant intellectual property profits' (RIPP), which include those attributable to products incorporating, or made using, qualifying patents.

Creative sector tax reliefs

Special tax rules apply to determine the tax treatment of certain companies within the creative sector. There are a number of different types of creative sector tax reliefs that deal with trades such as film production, video game development, high-end television production and theatre production. These reliefs can increase the amount of expenditure that is allowable as a deduction for tax purposes or, if the company makes a loss, allow the loss to be surrendered for a payable tax credit.

Capital allowances

Expenditure on certain assets that are acquired for use in a business can qualify for capital allowances, so that the cost of these assets is written off against taxable income. Plant and machinery assets that qualify can include anything from office furniture to IT equipment to certain fixtures in buildings (such as lifts). The UK tax regime offers a 100% initial allowance (annual investment allowance) for qualifying expenditure of up to £200,000 per year per group of companies.

Tax incentives for investors

Enterprise Investment Scheme (EIS)

The EIS is designed to help smaller, higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who subscribe for new shares in those companies.

The tax reliefs include both income tax and capital gains tax reliefs

Various regional programmes are in existence, and often these provide incentives to encourage job creation and economic growth in a particular local area.

for the investors, and are available where certain conditions are met by both the company invested in and the investors themselves.

A qualifying investor will be entitled to obtain income tax relief at a rate of 30% on new, ordinary, fully paid-up shares subscribed for in cash, up to the annual investment limit. For most companies the annual investment limit is currently £1,000,000, resulting in a maximum possible income tax saving of £300,000 (£1,000,000 at 30%) per year. There is no minimum investment limit. Dividends received on EIS shares are subject to income tax in the usual way.

Where an investor has realised a capital gain on the disposal of any assets, it is possible to defer that capital gain by subscribing for shares in an EIS-qualifying company. For the relief to apply, the investment in the EIS company will need to be made either within 3 years after the relevant disposal or up to 1 year before. In addition, providing certain conditions are met, gains on the disposal of EIS shares which qualified for EIS income tax relief will be exempt from capital gains tax.

Seed Enterprise Investment Scheme (SEIS)

The SEIS is designed to help the smallest, early-stage companies to raise finance by offering of tax reliefs that are similar to EIS but in some respects even more generous. Under the SEIS income tax relief is available at 50% of the cost of the shares subscribed for, although in this case the maximum annual investment is £100,000. Dividends received on SEIS shares are subject to income tax in the usual way.

Where an investor makes a disposal of an asset which would ordinarily give rise to a capital gain and reinvests all or part of the gain in SEIS qualifying shares, 50% of the gain reinvested will be exempt from capital gains tax. In addition, providing certain conditions are met, gains on the disposal of shares which qualified for SEIS income tax relief will be exempt from capital gains tax.

Grants and incentives

The government does not offer finance options for overseas companies but there may be some grants and incentives for which the company may be eligible.

There are a number of schemes available specifically for R&D-related projects such as SMART Funding, Horizon 2020 and Innovate UK.

Various regional programmes are in existence, and often these provide incentives to encourage job creation and economic growth in a particular local area.

In addition to this, there are various enterprise zones across the UK in which businesses can take advantage of business rates discounts and enhanced capital allowances. The objective of enterprise zones is to create longer-term, sustainable growth based on the most innovative and latest technology.

Agencies Providing Assistance

There are a number of government organisations and agencies in the UK that look to accelerate the growth of foreign businesses by providing access to the local market and business know-how.

The role of investment promotional agencies

The Department for International Trade (DIT), formerly the UK Trade & Investment (UKTI), is a government agency that is responsible for developing, coordinating and delivering a new trade and investment policy to promote UK business across the globe and attract foreign investments into the UK. They provide free and practical, consultative guidance to foreign-owned companies which are expanding their business to the UK and to UK-based companies looking to expand globally. DIT has a national role to play, accelerating the growth of businesses, and is responsible for contributing to economic growth by creating new jobs and safeguarding existing ones.

On a local level there are a number of investment promotional agencies that collaborate with DIT, focusing on creating employment and positive investment in their own location area. Each region and city have a unique service offering to sectors, research, skills and incentives which will be suitable depending on the type of business you are. One of the main investment promotional agencies is London & Partners, supporting companies that are planning to set up in London, providing a range of services to facilitate their expansion. There are a number of other promotional agencies across different regions in the UK, including Manchester's Inward Investment Agency (MIDAS), Marketing Birmingham, Invest Northern Ireland and Scottish Development International.

Industry organisations and trade associations

Industry organisations and trade associations are important to the UK as they work with the government to create new policies and enable companies in the industry to raise their concerns. It is also an excellent platform to build relationships within the industry and explore collaboration. Many associations hold a number of networking events to provide the opportunity to meet key stakeholders in the industries.

There are number of organisations for different sectors, however a few of these have been named below:

- **Tech UK**: Trade association that represents the UK tech sector (www.techuk.org)
- **Innovate Finance**: Not-for-profit membership organisation that specifically acts for the UK's fintech industry (www.innovatefinance.com)
- **London Chamber of Commerce and Industry:** The capital's largest independent networking and business support organisation, representing the interests of London businesses (www.londonchamber.co.uk)
- **Confederation of British Industry (CBI):** The UK's premier business organisation providing a voice for firms at a regional, national and international level to policymakers (www.cbi.org.uk)

Other key government organisations

There are a number of different UK government departments and organisations which you need to be aware of including:

- **HM Revenue & Customs (HMRC):** The UK's tax authority (www.gov.uk/government/organisations/hm-revenue-customs)
- **UK Visas and Immigration (UKVI):** Responsible for immigration, passports and crime policies and counter terrorism (www.gov.uk/government/organisations/uk-visas-and-immigration)
- **Department for Business, Energy & Industrial Strategy (BEIS):** Responsible for bringing together responsibilities for business, industrial strategy, science, innovation, energy and climate change (www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy)
- **Department for Work & Pensions (DWP):** Responsible for welfare, pensions and child maintenance policy. (www.gov.uk/government/organisations/department-for-work-pensions)

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The Next Step

To discuss your needs, please contact:

Kingston Smith
www.kingstonsmith.co.uk

Jon Sutcliffe
jsutcliffe@ks.co.uk
+44 20 7566 4000

Devonshire House
60 Goswell Road
EC1M 7AD London
United Kingdom

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