FOREWORD

This guide has been prepared for the use of clients, partners and staff of HLB member firms. It is designed to give some general information to those contemplating doing business in the United Kingdom (UK) and is not intended to be a comprehensive document. You should therefore consult HLB before taking further action. HLB and member firms cannot be held liable for any action or business decision taken on the basis of information in this guide. Laws in the United Kingdom that regulate businesses and taxes can be complex. Therefore, we would advise you to consult an HLB member firm in the United Kingdom before taking any specific action.

HLB (UK) Ltd
Issue date: March 2019
4 Doing business in The United Kingdom

ABOUT HLB

Formed in 1969, HLB is a worldwide network of independent professional advisory and accounting firms. HLB has member firms in 150 countries who, collectively, have 25,000 staff in 700 offices. Member firms provide clients with a comprehensive and personal service relating to auditing, taxation, accounting, and general and financial management advice.
Up-to-date information and general assistance on matters can be obtained from any of the member firm partners listed in this guide or from the Global office in London.

HLB GLOBAL OFFICE
21 Ebury Street
London
SW1W 0LD
United Kingdom
Telephone +44 (0)20 7881 1100
Fax +44 (0)20 7881 1109
Email: mailbox@hlb.global
Website: www.hlb.global

HLB International is a global network of independent advisory and accounting firms, each of which is a separate and independent legal entity, and as such HLB International Limited has no liability for the acts and omissions of any other member. HLB International Limited is an English company limited by guarantee which co-ordinates the international activities of the HLB International network but does not provide, supervise or manage professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International network, and vice versa and expressly disclaims all warranties, including but not limited to fitness for particular purposes and warranties of satisfactory quality.

In no event will HLB International Limited be liable for the acts and/or omissions of any member of the HLB International network, or for any direct, special, incidental, or consequential damages (including, without limitation, damages for loss of business profits, business interruption, loss of business information or other pecuniary loss) arising directly or indirectly from the use of (or failure to use) or reliance on the content of this Website or any third party website, or from your use of any member’s services and/or products. Any reference to a member’s services or products should not be taken as an endorsement.

HLB refers to the HLB International network and/or one or more of its member firms, each of which is a separate legal entity.
GENERAL INFORMATION

GEOGRAPHY
The United Kingdom (UK) is well placed in the financial world given its locality within Northern Europe. The UK business environment is advanced, due to the availability of trade, London being its financial epicentre. Supported by a large transport system and a good communications network, the UK is an attractive place to do business. The UK comprises Great Britain (England, Wales and Scotland) and Northern Ireland and is known for its multicultural and ethnic diversity. It includes several smaller islands, although the Isle of Man and the Channel Islands have their own government, and taxation systems and are Crown Dependencies not forming part of the UK.

GOVERNMENT
The UK Parliament, formed in the 13th Century, has three components; The Crown (Monarchy), the House of Commons and the House of Lords. Although the Government, led by the Prime Minister, is the supreme decision-making committee, in theory, the Monarchy has executive authority. The House of Commons and the House of Lords are the two legislative chambers within Parliament. Members of the House of Commons are elected following a UK General Election to form a democratically elected government. Unlike the House of Commons, members of the House of Lords either attain their position by inheritance, appointment or by virtue of their role within the church to form a forum of expertise.

UK LAW
The UK has an unwritten constitution and law consists of statute law, case law and common law. All companies that act in the UK must abide by the laws of the country. There are some differences between the legal systems of the countries making up the UK. In addition, the UK is part of the EU (expected to leave during 2019 – known widely as ‘Brexit’), the UK is expected to ensure that its law is in accordance with EU law. The UK uses Pounds Sterling as its currency. Interest rates are set by the Monetary Policy Committee of the Bank of England.
POPULATION

In 2017, the population of the UK was just over 66 million; the UK population is projected to continue growing, reaching over 74 million by 2039. People of working age, currently between 16 and 66 (state pension age), represent 63.1 per cent of the population.

BUSINESS CUSTOM

In the UK the use of first names is common including between staff and managers. Business can be conducted over lunch or dinner, and entertainment for clients and business contacts may be conducted at relaxed gatherings such as sporting and social events. Normal business hours are 9.00am to 5.00pm and most offices are open 5 days a week from Monday to Friday. However, it is not uncommon for businesses to accommodate clients outside office hours.
Setting up a business entity in the UK is the same for both UK and foreign investors. There are no particular rules applying to overseas persons wishing to invest or establish an entity, buy securities or land in the UK other than compliance with relevant UK legislation.

The UK is a popular place to invest due to its geographical position and international links; the government and local incentives on offer also support this. These investment factors are considered within this chapter.

**GOVERNMENT AND LOCAL INCENTIVES**

Historically, financial incentives have been offered to industry in the UK and this is now controlled by The Department for Business, Innovation and Skills (BIS). The BIS is a ministerial department of the government with responsibilities including business regulation and support, innovation and regional and local economic development amongst others.

**GOVERNMENT INCENTIVE SCHEMES INCLUDE:**

I. **Enterprise Finance Guarantee (EFG)**

EFG facilitates additional bank lending to qualifying Small and Medium Sized Enterprises (SMEs) that lack sufficient collateral to secure a commercial loan. They help by providing a guarantee to the lender for which the borrower has to pay a premium.

Businesses can borrow from a number of approved lenders including major UK banks, and the government will guarantee 75% of the loan up to £1 million.

II. **Enterprise Capital Funds (ECFs)**

As with the EFG, this scheme addresses funding shortages, but in the form of equity finance with Government funding in partnership with private sector investment. This incentive helps productivity growth, which would otherwise be restricted by the gaps in equity availability.

III. **Growth Capital Fund**

This works as a ‘funding escalator’ aiming to fill the lending gap for investments generally between £2 million and £10 million, by working via a commercial private sector fund manager and with contributions from private sector investors and Government. This funding is available for investments with the best growth opportunities.

IV. **Grant for Business Investment (GBI)**

GBI provides capital grants to support sustainable investment in England. These grants are awarded to help businesses expand, rationalise, modernise or diversify. Grants are available for businesses of all sizes investing in an English Assisted Area as well as SMEs investing in Tier 3 areas (LEC local economic communities).

GBI is available for most manufacturing businesses and national service industries. There is, however, a minimum application threshold of £10,000.
There are similar funds available in Wales and Scotland.

V. Research and Development (R&D) Tax Credits

These tax credits are a funding mechanism provided by the Government for investment in business R&D. The credit is given in one of two forms; either as a tax deduction on R&D spending or, for loss making companies, as a payable tax credit from Her Majesty’s Revenue and Customs (HMRC).

These tax credits are designed to encourage technological innovation at different stages of project development.

VI. UK Innovation Investment Fund

This fund invests in technology-based businesses that show rapid growth potential. The focus of the fund is on start-ups, small businesses and scientific entities.

DEPARTMENT FOR INTERNATIONAL TRADE

The Department for International Trade promotes and finances international trade and investment, to drive the UK and global economy. This includes free trade, policies, frameworks and promotion.

EUROPEAN UNION (EU) INCENTIVES

The European Union has set up Structural Funds and Cohesion Funds, as part of its regional policy.

Structural Funds include the European Regional Development Fund (ERDF) and the European Social Fund (ESF). These, together with the Cohesion Fund, form the main tools for economic restructuring throughout the EU.

The joint objectives are to promote convergence, regional competitiveness and employment, and to increase territorial cooperation between European regions. To achieve these aims, investment is given to companies to create jobs, encourage research and innovation and to promote regional cooperation.
Sources of Finance

Generally, business financing can take two forms: debt or equity. Debt entails borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business.

Debt Financing Sources

Banks

Banks in the UK typically lend to small businesses on a secured basis using equipment, stock or debtors. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be to a banker. Finance from a bank may take several forms such as:

- An overdraft limit which is reviewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.
- A short-term loan that is repayable on specified dates.
- A commercial mortgage; as your relationship with your banker develops, and your business becomes established, you may consider a longer-term loan, which will be repayable in instalments.
- Personal guarantees may often be required as part of the general security.

Lease and asset-based financing

In today’s business environment, it is quite common to acquire equipment through lease agreements. Asset financing companies are plentiful and may be able to provide additional cash flow by providing finance against both new and second-hand assets.

Factoring and invoice discounting

This form of finance ensures that the turnover you achieve is more quickly available as cash to your business. Working capital tied up in your sales ledger (i.e. noncontractual debt) is, therefore, released that much more quickly. The factor/invoice discounter pays your business an advance on the turnover before the invoiced amount has been paid by your customer.

Factoring and invoice discounting can be used in conjunction with, or as an alternative to, bank overdraft or loan finance.

Equity Financing Sources

Stock based lending

Commonly provided as part of a wider asset based lending facility, stock finance enables businesses to release funding against the value of inventories and improve their cash flow.

Venture Capital Companies

A venture capital fund is often backed by a group of investors that may be individuals or companies. The investors are generally represented by a management group that evaluates potential investments and manages the existing investment portfolio.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists deal with much higher-risk situations than
Doing business in The United Kingdom

Commercial banks will finance. The cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require. Venture capital companies can also offer expertise to businesses and often appoint a non-executive director.

**Private Individuals**

Often, individuals who are successful in their own right and have accumulated substantial wealth, may be approached regarding investment in your business venture. These individuals, like a venture capital company, often want to participate in the management activities of your business and help guide progress through representation on the Board of Directors.

Individual investors can be more flexible in the type of investment structure they deal with and often have personal, financial and tax motivations to consider.

**You and your staff**

A cheaper, and possibly more effective form of equity finance, is the introduction of capital by yourself (perhaps by a loan rather than share purchase) or your employees. Passing shares to your employees, perhaps via a share option scheme, can have the added advantage of retaining and motivating existing key staff and or recruiting prospective employees.

**Stock Exchange**

The UK holds Europe’s biggest share market; capital can be raised from the public for both UK and international companies through flotation on the London Stock Exchange. There are three main markets:

- The main London Market for large companies, which overseas companies are encouraged to use to raise capital in the global equities market.
- The Alternative Investment Market (AIM) is for smaller but growing companies. The benefit is that this market has a more flexible regulatory system than the main market.
- NEX Exchange is an avenue for small and medium sized companies seeking to raise growth capital.

**INFORMATION NEEDED FOR FINANCING OPTIONS**

Finance can be difficult to obtain without the correct financial information being available. The information normally required by UK banks before any finance is made available is generally:

- three years of accounts;
- financial forecasts; and
- security in the form of assets, or personal guarantees from directors.

**OTHER INVESTMENT CONSIDERATIONS**

Foreign Exchange Controls

There are no restrictions on foreign ownership and no exchange control regulations. Overseas investors require
no authorisation to invest in the UK or to export funds from the UK. They must, however, abide by the usual anti-competitive agreements, monopolisation or abuse of market power restrictions.

Trusts
The UK has a comprehensive system of Trust law, which has developed as part of the common law system. Trusts can be used for a variety of purposes for both personal tax and corporate tax planning. The concept of a trust is that an individual (the Settlor) transfers his property to a group of people of his choice (the Trustees) for the benefit of a group of others (the Beneficiaries).

The UK also recognises trusts established under other jurisdictions, the Channel Islands and the Isle of Man are popular locations for trusts established by individuals who are resident but not domiciled in the UK.

EMPLOYMENT REGULATIONS
The UK’s employment legislation is set-up to ensure that there are equal opportunities for all employees and that the work environment is safe. As at October 2018, you do not need a permit to work in the UK if you are:

- a British citizen;
- an European Economic Area (EEA) citizen; or
- a Swiss national.

If you do need a work permit, it can be obtained from the Department of Employment; however, an immigration cap is being introduced for those outside the EU. Senior corporate employees usually have little difficulty in obtaining a permit.

Employees are subject to the UK taxation system which is dealt with in the Taxation section.

Important matters that are regulated by UK employment law and that need to be considered when setting up in the UK are:

- Minimum wage
- Employment contracts and conditions
- Holiday pay
- Time off and holidays
- Sick leave and pay
- Pension provision
- Business transfers, takeovers and TUPE
Principal forms of business
There are several legal structures for setting up an entity in the UK:

- Limited company
  - Private limited company
  - Public limited company
  - Company limited by guarantee
- Partnership, including limited liability partnership (LLP)
- Sole trader
- Charitable incorporated organisation
- Community interest company
- UK branch of overseas company
- Joint ventures
- Mergers and acquisitions

Whatever structure you choose, the protection of shareholder or partnership agreements should be carefully considered, and legal advice sought.

All business structures are able to choose their own accounting year-end date.

Limited company
Limited companies can be either private or public companies. Limited companies are limited by shares and as a result the shareholders have limited liability. The directors and shareholders therefore have a separate legal personality from the company, meaning personal assets are distinct from company finances.

Limited companies, whether private or public, must have at least one director who is a real person rather than a company. There are no nationality (the individual does not necessarily have to be a UK citizen) or residency requirements for either shareholders or directors. Directors must be at least 16 years of age but there is no upper age limit.

Limited companies can be incorporated online within 24 hours or less, if required, for a greater cost. All limited companies are regulated by the Companies Act 2006. On incorporation, a written constitution in the form of the Articles of Association and Memorandum of Association have to be filed at the Registrar of Companies.

An annual Confirmation Statement, which contains information about the shareholders and directors, and the annual accounts, must be filed at Companies House. The deadlines for these can be seen in Appendix I. Smaller companies are able to file less detail in their accounts at Companies House than larger ones.

Private limited company
A private company is the most common form of privately held company. These companies must have a minimum of one issued share and require at least one shareholder and one director. Companies may have greater borrowing potential than sole traders. They can use current assets as security by creating a floating charge.
Private companies can be converted into public companies, which does not have to mean they are listed on a recognised stock market.

**Public limited company**

The main reason for establishing a public limited company structure is to raise capital on the stock market by offering the company’s shares to the public. Though there is no requirement for a public limited company’s shares to be admitted to trading on any stock market and indeed many such companies are unlisted entities.

There are other requirements, including the need for at least two directors, a qualified company secretary and at least £50,000 of issued share capital. Of the share capital, a quarter must be paid up. This can be subscribed in a cash or non-cash form.

**Company limited by guarantee**

These companies do not have share capital but are guaranteed by the members who agree to contribute a fixed amount (which is usually quite small) in the event of the company being wound up.

**Partnership**

There are two types of partnership; the traditional partnership and the relatively new (2001) form of entity, the limited liability partnership.

A partnership is a business arrangement between two or more individuals and/or entities that agree to carry out a business in common to advance their combined interests.

The Partnership Act 1890 highlights the fact that a partnership is not a separate legal entity from the partners and, therefore, any debts and obligation is apportioned between partners. As the liability is unlimited, personal assets are at risk.

**Limited liability partnership (LLP)**

The Limited Liability Partnership Act 2000 meant that a partnership could have limited liability whilst being more flexible than a limited company. However, this business structure is not available for not-for-profit organisations.

There must be at least two appointed designated members, and annual Confirmation Statements and annual accounts must be filed at Companies House as governed by the Companies Act 2006.

The main benefit of an LLP is that personal assets of partners are protected, in the same way as with a limited company. Due to the added regulation requirements there are higher formation costs than in a traditional partnership.
Sole trader
This is the simplest form of business structure, as it is often adopted by individuals involved in business or profession on their own. There are registration requirements although this involves minimal paperwork.

A sole trader is unincorporated, and although banks might be more willing to initially invest (due to the lack of limited liability), it lacks the ‘weight’ of an incorporated business. As with a traditional partnership the individual is liable for all debt.

UK branch of overseas company
A UK branch is a place of business for a foreign company with an established office in the UK and acts as the same legal entity as the foreign company. A foreign company can establish a UK branch, although there are certain registration and reporting requirements of the Companies Act 2006 that must be complied with.

A UK branch of an overseas company is usually required to pay corporation tax and file a corporation tax return (see later).

It is important to consider whether the physical presence in the UK means the company is considered to be trading in the UK.

Joint Ventures
A foreign company may form a joint venture with a business in the UK. The joint venture may be organised in one of the business forms stated above and will be taxed accordingly. A joint venture agreement should clearly define the relationship between the parties and their respective responsibilities.

Mergers and acquisitions
A foreign company may want to conduct its business in the UK by acquiring or merging with an existing business. There are various mechanisms for acquisition, and due diligence on the target is fundamental in understanding the business and its financials.

Accounting and audit requirements
The accounting and audit thresholds and requirements are given in Appendix I.
TAXATION

TAX STRUCTURE
HM Revenue and Customs (HMRC) is primarily responsible for the collection of:
- Corporation tax;
- Income tax;
- Capital gains tax;
- Indirect taxes including value added tax (VAT);
- Stamp duty;
- Inheritance tax; and
- National insurance.

Taxation legislation is extensive and can be confusing for an individual starting a business in the UK. We have provided details of the rates of tax and the reporting requirements in Appendix II. It is, however, important to take specific tax advice for your circumstances to ensure you are not suffering more tax than you are legally required to pay, and to ensure you are claiming the appropriate and correct rate of allowances to which you may be entitled.

CORPORATION TAX
Companies must pay corporation tax in the UK if resident, which is defined by either being incorporated within the UK, having its control and central management exercised in the UK, or if it has a permanent establishment in the UK. A UK resident company is subject to corporation tax at prevailing rates on its worldwide profits.

Companies are charged corporation tax at the rate applicable during the financial year (1 April – 31 March). Where a company’s accounts period spans two financial years the profits for the period are apportioned between the years.

<table>
<thead>
<tr>
<th>FINANCIAL YEAR TO</th>
<th>PROFITS</th>
<th>TAX RATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>31/3/17</td>
<td>ALL</td>
<td>20%</td>
</tr>
<tr>
<td>31/3/18</td>
<td>ALL</td>
<td>19%</td>
</tr>
<tr>
<td>31/3/19</td>
<td>ALL</td>
<td>19%</td>
</tr>
<tr>
<td>31/3/20</td>
<td>ALL</td>
<td>19%</td>
</tr>
<tr>
<td>31/3/21</td>
<td>ALL</td>
<td>17% (expected)</td>
</tr>
</tbody>
</table>
The rate of corporation tax is set to reduce to 17% from 1 April 2020.

Under corporation tax self-assessment, a company is required to assess its own liability to corporation tax and pay that liability by the normal due date, nine months after the end of the accounting period, unless it is a large company (see below).

The company is required to submit its completed tax return (HMRC form CT600), accounts and tax computation to HMRC by the filing date, which is 12 months after the end of its accounting period. All corporation tax returns must be filed online using the online extensible business reporting language (IXBRL) format. Penalties will be charged if it is late. Interest will be charged from the normal due date on any unpaid tax.

Companies with taxable profits that exceed £1.5 million pay corporation tax in advance quarterly instalments commencing within the accounting period. Therefore, the liability to corporation tax needs to be estimated as profits are not known for the first three instalments.

A company will not have to pay tax in instalments if it was not ‘large’ in the previous period and its profits for the accounting period are less than £10,000.

If the company is part of a group, the £1.5 million and £10 million thresholds are divided by the number of associated companies, plus one, in order to determine the profits threshold for that company.

From April 2019, companies with taxable profits in excess of £20 million will be required to make accelerated instalment payments, four months earlier than the existing deadlines.

**Dividends**

Dividends are paid without deducting withholding tax, after corporation tax is charged on taxable profits. Tax is not charged on any dividends received from other UK resident companies and is, in the majority of circumstances, not charged on dividends received from companies in overseas territories.

**Groups**

UK group companies can surrender trading losses between themselves in a financial year providing the companies are at least 75% owned by a single company.

Consortium relief is permitted where a company subject to UK corporation tax is owned by a consortium of companies that each own at least 5% of the shares and together own at least 75% of the shares. A consortium company can only surrender or accept losses in proportion to how much of that company is owned by each consortium group. The UK is a member of The Organisation for Economic Co-operation and Development (OECD). We apply OECD Model Tax Convention and UN Model double taxation convention between developed and developing countries.

**UK branches of overseas companies**

Non-UK resident companies are taxed on the income of a branch trading within the
UK. There are strict rules on whether a UK branch is deemed to be generating profits or merely facilitating sales and therefore trading or not in the UK and each case needs separate consideration.

Foreign tax
The UK has tax treaties with a wide range of overseas territories, including most of the major economies, which enhance the already favourable UK tax regime. These treaties result in credit for foreign tax suffered against UK corporation tax on foreign income, however relief is not always automatic and a formal application to HMRC is normally required. There is, however, no double tax relief for UK branches of overseas companies.

INCOME TAX
Individuals are liable to pay UK income tax depending on the twin concepts of residence and domicile.

Residence
There are various tests to identify whether an individual would automatically be regarded as overseas or UK resident. If these tests are not conclusive, it is then necessary to look at the ‘sufficient ties’ test. This lists a number of UK ‘connection’ factors; the more connection factors an individual has to the UK, the less time they can spend in the UK before becoming UK tax resident.

Domicile
Domicile is based on the individual’s place of birth, the domicile status of the individual’s parents or where they intend to live out the remainder of their life.

Liability to UK income tax
A UK resident and domiciled (or deemed domiciled) individual will pay tax on their worldwide income and gains.

A UK resident but non-domiciled individual may claim to be taxed on a remittance basis. If the individual is not UK domiciled and their foreign income and gains are not remitted to the UK, they are only taxable on their UK income and gains for the first 7 years of residence.

Once an individual has been resident in the UK for seven out of the last nine tax years they will be required to pay a £30,000 remittance basis charge (RBC) to enable them to continue to apply the remittance basis. The RBC increases to £60,000 once an individual has been resident in the UK for the last 12 out of 14 tax years.

With effect from 6 April 2017, individuals are deemed to be UK domiciled, if resident for 15 of the previous 20 tax years or domiciled as soon as they become resident in the UK if, also born in the UK. If deemed domiciled the remittance basis will not be available.

Tax rates
Sole traders and partnerships (and members of limited liability partnerships) are charged income tax at the rates applicable during the fiscal years (6 April - 5 April).
Each individual has a personal allowance on which no income tax is paid. For 2019/20, the personal allowance is £12,500. For income above this amount the rates are as follows:

<table>
<thead>
<tr>
<th>2019 / 20</th>
<th>INCOME</th>
<th>TAX RATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic - Under</td>
<td>£37,500</td>
<td>20%</td>
</tr>
<tr>
<td>Higher - Over</td>
<td>£37,500</td>
<td>40%</td>
</tr>
<tr>
<td>Additional - Over</td>
<td>£150,000</td>
<td>45%</td>
</tr>
</tbody>
</table>

Note: The personal allowance is reduced by £1 for every £2 of adjusted net income over £100,000.

For those who are either sole traders or in partnership, there may also be a liability to Class 2 and Class 4 National Insurance (NI) contributions, depending on the level of profit in each fiscal year. Class 2 contributions are at a weekly stamp rate of £3.00 (2019/20), but paid annually. Class 4 NI is payable by the self-employed on profits.

Class 4 contributions are levied at 9% on profits between £8,632 and £50,000 (maximum) for 2019/20. There is a further 2% charge on all profits in excess of the upper limit of £350,000.

For the self-employed and those who pay tax on other income such as rents, tax is normally payable in three instalments – the first two instalments are based on the tax paid on the previous year’s income tax liability. The third and final instalment is the balance of any tax due.

**Dividends**

UK dividends are received without a tax deduction. Each individual can receive up to £2,000 of dividend income with no UK tax liability.

Dividends are taxed at the rates of 7.5%, 32.5% and 38.1% for basic, higher and additional rate taxpayers respectively.
Foreign tax
As with corporation tax, credit is available for overseas tax correctly paid by a UK resident.

CAPITAL GAINS TAX
Companies
Chargeable gains in a UK company (or branch of an overseas company) are taxed, at the same rate as profits are taxed.
Capital gains are calculated based on the difference between the net proceeds of a sale of a chargeable asset and its original cost. An allowance is made for any inflation (indexation allowance) but for disposals after 1 January 2018, the indexation allowance applied is calculated up to 31 December 2017 only, regardless of the disposal date.
There are various exemptions and reliefs that may apply to mitigate against corporation tax arising on chargeable gains.
For instance, disposals of substantial shareholdings (10% or greater) in trading companies are exempt where certain conditions are met.

Individuals
Individuals are charged at a capital gains tax rate of 10%, 20%, or a combination of these rates. The 10% rate applies if the gain sits within the individual’s basic rate band, after including all other income. If it does not, the rate is 20%. An 8% surcharge applies on the disposal of residential properties raising the rates to 18% and 28% for basic rate and higher/additional rate taxpayers respectively.

If the asset being disposed of meets the criteria of a qualifying business asset then Entrepreneurs’ Relief may apply and this can result in a capital gains charge at 10% on gains up to a lifetime limit of £10 million.
There are also annual exemptions available, which can reduce any capital gain charge. The annual exemption for the 2019/20 tax year is £12,000.

VALUE ADDED TAX
VAT is a tax on consumer expenditure and is ultimately paid by the final customer. Most business transactions involve the supply of goods or services and VAT is payable if they are made:

- In the United Kingdom;
- By a taxable person;
- In the course or furtherance of business and are not specifically exempted or zero-rated.

VAT is collected by the VAT registered business and is normally payable to HMRC quarterly.
There are three different types of registration – intending, voluntary and compulsory. A person who makes taxable supplies becomes liable to be registered if:

- at the end of any month, the value of his taxable supplies in the period of one year then ending has exceeded the registration limit, which is £85,000 at the time of writing; or
- at any time there are reasonable grounds for believing that the value of his taxable supplies in the next 30 days will exceed the £85,000 limit.
the person must notify HMRC of the liability within 30 days of the end of the month in which the value of the taxable supplies in the preceding 12 months or less exceeded £85,000. If only VAT-exempt supplies are made e.g. sales of refurbished dwellings VAT registration cannot be applied for and VAT on expenditure cannot be reclaimed.

Taxable persons

Sole traders need to remember that it is the person that is registered for VAT and not their business. If a person has two separate businesses, then that person will be required to be registered for VAT and account for VAT at the appropriate rate if the total supplies exceed £85,000.

Taxable supplies

Taxable supplies are all supplies made by a business either to a third party or to the trader himself (goods for own use), which are not exempt supplies. Taxable supplies therefore include zero-rated supplies. It is important that at the outset of a business, a trader establishes the VAT status of any supplies being made to avoid mistakes.

VAT rates

There are three rates of VAT:

- standard = 20%;
- reduced = 5% – for certain supplies of fuel and power and certain construction services; and
- zero= 0%.

Any VAT charged by the business, whether at 20% or 5% is known as output VAT and the total charged or collected in the VAT quarter is payable to HMRC. Any VAT charged on goods or services purchased by a VAT registered business is known as input VAT and can generally be reclaimed from HMRC through its quarterly return.

Penalties

There are three important penalties that every business should be aware of:

- Late registration penalty for not registering for VAT at the correct time;
- Default surcharge for traders that are persistently late in either submitting VAT returns and/or making payment of the liability due; and
- Penalties for failure to take reasonable care or carelessness.

Online filing and payment

All businesses are required to submit returns and payments electronically.

From April 2019, all VAT registered businesses above the £85,000 threshold will be required to keep their records digitally and submit VAT returns to HMRC using ‘Making Tax Digital’ compatible software (Excel spread sheets can still be used though in conjunction with bridging software).

INHERITANCE TAX

Inheritance tax (IHT) is charged on the value of an individual's total worldwide estate on death, if they are domiciled in the UK and the value exceeds the nil rate band. For
2019/20 this is £325,000.

An enhanced nil rate band was introduced from April 2017, in respect of a residential property which is left to direct descendants on death. With this additional allowance, a married couple could have a tax free IHT allowance of up to £1 million by 2020.

IHT is charged at 40%. There are reliefs available for business assets. IHT can also be chargeable on assets in the UK owned by individuals not domiciled in the UK.

**PAY AS YOU EARN (PAYE) & NATIONAL INSURANCE CONTRIBUTIONS (NIC)**

PAYE is the system under which employers in the UK are required to deduct income tax and national insurance from their employees before paying them their wages. Every business in the UK that has UK employees is required to register as an employer with HMRC.

Upon registration, HMRC will send to you an employer’s pack. Included will be a number of forms with which to operate the PAYE and NIC system.

In order to calculate the amount of tax and national insurance due by an employee, HMRC will supply you with sets of tables. By reference to the ‘tax free’ tables and an employee’s tax code, you will be able to calculate the amount of salary that is not subject to tax.

The difference between this figure and the gross amount is the employee’s taxable pay. The tax can then be calculated by reference to another set of tables. The employer’s and employee’s national insurance is calculated by reference to the gross pay with a third set of tables.

Special rules exist for the calculation of national insurance for directors. The HMRC website also includes calculators for determining PAYE liabilities.

Fortunately for everyone, payroll software now removes much of the burden of working out tax and NI deductions correctly.

The tax and national insurance should be paid to HMRC by the 19th of the month following that in which the salaries were paid, or the 22nd day of the month if paid electronically.

The current rate of employee’s national insurance in the UK is 12%, up to earnings of £962 weekly. Over this limit the rate is 2%, with no upper limit.

There are special rules for national insurance for individuals moving to or from the UK.

Employers must report PAYE information to HMRC in real time; this is known as Real Time Information or RTI. This means that employers must send details to HMRC every time that they pay them and use payroll software to send this information electronically as part of their routine payroll process.

In certain circumstances a contractor may have to operate a Construction Industry Scheme (CIS). The scheme sets out the rules for payments to subcontractors for construction work. Work must be handled by contractors in the construction industry and certain other businesses.
ACCOUNTING AND AUDIT REQUIREMENTS

A brief summary of the accounting and audit regulations and requirements in the UK can be found below.

Limited companies (including public limited companies)

Limited companies are governed by the Companies Act 2006, which requires the following of all companies;

- To prepare and submit annual accounts to the Registrar of Companies. These accounts are available for public inspection although for smaller companies filleted accounts may be filed. Dormant subsidiaries are able to take exemption to not prepare and file accounts;
- To maintain accounting records, registers and minutes of director and shareholder meetings; and
- To have their annual financial statements audited by an auditor registered to carry out audit work in the UK, although exemptions are available for small companies and subsidiaries as set out below.

Small company exemptions

To qualify as small and be eligible for audit exemption, a company must satisfy two of the following three conditions, for two consecutive years:

- Annual turnover of not more than £10.2 million;
- Balance sheet gross assets of not more than £5.1 million; and
- Average number of employees not more than 50.

Subsidiary company exemptions

Further exemptions from audit are available to subsidiaries of groups where consolidated accounts are prepared by a parent in the European Economic Area. The consolidated accounts must be produced in English and filed in the UK together with a resolution from the shareholders and a statement from the parent guaranteeing the liabilities of the exempt subsidiary.

Some companies are not entitled to the subsidiary exemption. Ineligible companies are listed below:

- Quoted
- Authorised insurance company
- Insurance market activity
- Banking company
- E-money issuer
- MiFID investment company
- UCITS management company

Accounting Standards

Companies whose shares are listed on the UK or other European Stock Exchange or on AIM must prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. They are however entitled to prepare the parent company accounts in accordance with UK GAAP (UK Accounting Standards) and Company Law.
Unlisted companies (including unlisted Public Limited Companies) can choose to prepare their accounts under either IFRS or UK GAAP.

**Limited liability partnerships**
These are governed by the Limited Liability Partnerships Act 2000; however, the accounting and reporting regulations are similar to those of limited companies.

**Partnerships and sole traders**
There are no statutory requirements to prepare financial statements other than to report profits to the tax authorities in the UK, prepared in accordance with UK standards.

**Filing deadlines**
Annual accounts must be filed at the Registrar of Companies within a certain time period from the accounting year end as below:
- Public company: 6 months
- Private company and LLPs: 9 months

If these are breached penalties will be charged automatically.
APPENDIX II
TAX RATES AND ALLOWANCES IN THE UK

CORPORATION TAX
The rates below apply from 1 April each year:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>19%</td>
</tr>
<tr>
<td>2018/19</td>
<td>19%</td>
</tr>
<tr>
<td>2019/20</td>
<td>19%</td>
</tr>
<tr>
<td>2020/21</td>
<td>17%</td>
</tr>
</tbody>
</table>

CAPITAL ALLOWANCES

Plant and machinery – Annual Investment Allowance (AIA)
The AIA gives a 100% deduction on most types of plant and machinery costs, including integral features and long-life assets, commercial vehicles (but not cars), of up to £1,000,000 per year from 1 January 2019 to 31 December 2020 (reverting back to £200,000 after this date).

Any costs over the AIA fall into the normal capital allowance pools. The AIA may need to be shared between certain businesses under common ownership.

Other plant and machinery allowances
The annual rate of allowance is 18%. A 6% rate applies to expenditure incurred on integral features and on long life assets.

A 100% first year allowance is also available on certain energy efficient plant and cars.

Structure and buildings allowance (SBA)
A 2% SBA allowance will be available for costs incurred on non-residential properties where construction contracts are entered into on or after 29 October 2018.

INNOVATION TAXES

<table>
<thead>
<tr>
<th>Classification</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Tax Credit</td>
<td>230%</td>
</tr>
<tr>
<td>SME Payable Credit</td>
<td>14.5%</td>
</tr>
<tr>
<td>R&amp;D Expenditure Credit</td>
<td>12%</td>
</tr>
<tr>
<td>Patent Box</td>
<td>10%</td>
</tr>
</tbody>
</table>

INCOME TAX
Each individual has a personal allowance up to which no income tax is paid. For 2019/20, the personal allowance is £12,500.

The personal allowance is reduced by £1 for every £2 of adjusted net income over £100,000. Personal allowances are not available to many non-UK residents.
TAX RATES

<table>
<thead>
<tr>
<th>2019/20</th>
<th>TAXABLE INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% (where the individual only has non-dividend savings income)</td>
<td>£0 - 5,000</td>
</tr>
<tr>
<td>20% (except Dividends at 7.5%)</td>
<td>£0 - 37,500</td>
</tr>
<tr>
<td>40% (except Dividends at 32.5%)</td>
<td>£37,501 - 150,000</td>
</tr>
<tr>
<td>45% (except Dividends at 38.1%)</td>
<td>£150,001 and over</td>
</tr>
</tbody>
</table>

In Scotland, from 6 April 2019, different rates apply, as follows (except on dividends which are taxed at rest of UK rates):

<table>
<thead>
<tr>
<th>2019/20</th>
<th>INCOME</th>
<th>TAX RATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starter rate</td>
<td>£2,049</td>
<td>19%</td>
</tr>
<tr>
<td>Basic rate</td>
<td>£2,050 to £12,444</td>
<td>20%</td>
</tr>
<tr>
<td>Intermediate rate</td>
<td>£12,444 to £30,930</td>
<td>21%</td>
</tr>
<tr>
<td>Higher - over</td>
<td>£30,930 to £150,000</td>
<td>41%</td>
</tr>
<tr>
<td>Top rate</td>
<td>Over £150,000</td>
<td>46%</td>
</tr>
</tbody>
</table>

Earned income is taxed first, then savings income and finally dividends income.

INCOME TAX RELIEFS AND INCENTIVES

<table>
<thead>
<tr>
<th>ANNUAL LIMITS</th>
<th>2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Investment Scheme*</td>
<td>£2,000,000 (but capped at £1,000,000 for investment in non-qualifying 'knowledge intensive companies')</td>
</tr>
<tr>
<td>Seed Enterprise Investment Scheme**</td>
<td>£100,000</td>
</tr>
<tr>
<td>Venture Capital Trust*</td>
<td>£200,000</td>
</tr>
<tr>
<td>Individual Savings Accounts Total overall investment</td>
<td>£20,000</td>
</tr>
<tr>
<td>Gift Aid and Payroll Giving Scheme</td>
<td>No limit</td>
</tr>
</tbody>
</table>

* Tax relief restricted to 30% for investor ** Tax relief given at 50%
Capital Gains Tax

<table>
<thead>
<tr>
<th></th>
<th>2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual exemption</td>
<td></td>
</tr>
<tr>
<td>Individuals</td>
<td>£12,000</td>
</tr>
<tr>
<td>Trusts</td>
<td>£6,000</td>
</tr>
</tbody>
</table>

Entrepreneurs’ Relief and Investors’ Relief

Both reliefs allow for a 10% capital gains tax rate to be applied to the first £10 million of qualifying gains per person. The two reliefs are separate from each other and each have their own £10 million lifetime limit.

NATIONAL INSURANCE CONTRIBUTIONS

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>Employee</th>
<th>Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £166</td>
<td>NIl*</td>
<td>NIl*</td>
</tr>
<tr>
<td>£166 - £962</td>
<td>12%</td>
<td>13.8%</td>
</tr>
<tr>
<td>£962 and over</td>
<td>2%</td>
<td>13.8%</td>
</tr>
</tbody>
</table>

* Entitlement to contribution-based benefits retained for earnings between £118 and £166 per week.

NATIONAL INSURANCE CONTRIBUTIONS (CONTINUED)

<table>
<thead>
<tr>
<th>Class</th>
<th>Taxation details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1A (employers)</td>
<td>13.8% on employee taxable benefits</td>
</tr>
<tr>
<td>Class 1B (employers)</td>
<td>13.8% on PAYE Settlement Agreements</td>
</tr>
<tr>
<td>Class 2 (self-employed)</td>
<td>flat rate per week £3.00</td>
</tr>
<tr>
<td>Class 3 (voluntary)</td>
<td>small earnings exception £6,365 pa</td>
</tr>
<tr>
<td>Class 4 (self-employed)</td>
<td>9% on profit between £8,632 and £50,000 plus 2% on profits over £50,000</td>
</tr>
</tbody>
</table>
HLB IN THE UNITED KINGDOM
HOW TO CONTACT US

INTERNATIONAL CONTACT PARTNERS

Jon Cartwright  Cheltenham  jon.cartwright@hazlewoods.co.uk
Greame Finnie  Glasgow  g.finnie@frenchduncan.co.uk
Ralph Mitchison  London  rmitchison@menzies.co.uk
Caroline Monk  Manchester  caroline.monk@beeverstruthers.co.uk
Colin Fish  Norwich  c.fish@lovewell-blake.co.uk
Chris Hill  Sheffield  cih@hawsons.co.uk

Blackburn
Will Campbell
Will Campbell
Beever and Struthers
Central Buildings
Richmond Terrace
Blackburn BB1 7AP
Tel: +44 (0) 1254 686600
will.campbell@beeverstruthers.co.uk

Bury St Edmunds
Brian Floringer
First Floor Suite
2 Hillside Business Park
Bury St Edmunds
IP32 7EA
Tel: +44 (0) 1284 337070
b.floringer@lovewell-blake.co.uk

Cardiff
John Cullen
Menzies LLP
Sovereign Quay
2 Havannah St
Cardiff, CF10 5SF
Tel: +44 (0)2920 447510
jculleen@menzies.co.uk

Cheltenham
David Williams
Hazlewoods LLP
Staverton Court
Staverton
Cheltenham GL51 0UX
Tel: +44 (0)1242 680000
Fax: +44 (0)1242 680857
david.williams@hazlewoods.co.uk
Doncaster

Martin Wilmott
Hawsons
5 Sidings Court
White Rose Way
Doncaster DN4 5NU
Tel: +44 (0)1302 367262
Fax: +44 (0)1302 342969
maw@hawsons.co.uk

Dumbarton

Charles Cleary
French Duncan
85 Glasgow Road,
Dumbarton, G82 1RE
Tel +44 (0)1389 765238
Fax +44 (0)1389 743883
c.cleary@frenchduncan.co.uk

Edinburgh

Eileen Blackburn
French Duncan
56 Palmerston Place
Edinburgh, EH12 5AY
Tel: +44 (0)131 225 6366
Fax: +44 (0)131 220 1041
e.blackburn@frenchduncan.co.uk

Ely

Leigh Thurston
11 Lynn Road
Ely
CB7 4EG
Tel: +44 (0) 1353 662447

Farnborough

Roberto Lobue
Menzies LLP
Victoria House
50-58 Victoria Road
Farnborough
GU14 7PG
Tel: +44 (0)1252 894915
rlobue@menzies.co.uk

Glasgow

Grame Finnie
French Duncan
133 Finnieston Street
Glasgow, G3 8HB
Tel: +44 (0)141 221 2984
Fax: +44 (0)141 221 2980
g.finnie@frenchduncan.co.uk

Great Yarmouth

Neil Orford
Lovewell Blake LLP
Sixty Six
North Quay
Great Yarmouth
Norfolk NR30 1HE
Tel: +44 (0)1493 335100
Fax: +44 (0)1493 335133
n.orford@lovewell-blake.co.uk

Hamilton

Linda Barr
French Duncan
Aviat House
4 Bell Drive
Hamilton Technology Park
Blantyre, G72 0FB
Tel: +44 (0)1698 459 444
Fax: +44 (0)1698 710 141
l.barr@frenchduncan.co.uk
Doing business in The United Kingdom

Halesworth

Ryan Lincoln
Lovewell Blake LLP
The Wherry
Quay Street
Halesworth
Suffolk IP19 8ET
Tel: +44 (0)1986 873163
Fax: +44 (0)1986 874523
r.lincoln@lovewell-blake.co.uk

Heathrow

Andrew Mosby
Menzies LLP
Centrum House
36 Station Road
Egham
TW20 9LF
Tel: +44 (0)1784 497146
amosby@menzies.co.uk

Leatherhead

Caroline Milton
Menzies LLP
Ashcombe House
5 The Crescent
Leatherhead
KT22 8DY
Tel: +44 (0)1372 366173
cmilton@menzies.co.uk

London

Nick Farmer
Menzies LLP
Lynton House
7-12 Tavistock Square
London WC1H 9LT
Tel: +44 (0)1784 497153
nfarmer@menzies.co.uk

Lowestoft

Paul Briddon
Excelsior House
9 Quay View Business Park
Barnards Way
Lowestoft, NR32 2HD
Tel: +44 (0)1502 563921
Fax: +44 (0)1502 584630
p.briddon@lovewell-blake.co.uk

Manchester

Caroline Monk
Beever and Struther
St George’s House
215-219 Chester Road
Manchester M15 4JE
Tel: +44 (0)161 832 4901
Fax: +44 (0)161 835 3668
caroline.monk@beeverstruthers.co.uk
Northampton
David Cairns
Hawsons
Jubilee House
32 Duncan Close
Moulton Park
Northampton NN3 6WL
Tel: +44 (0)1604 645600
Fax: +44 (0)1604 670076
davidcairns@hawsons.com

Norwich
Colin Fish
Lovewell Blake LLP
Bankside 300
Peachman Way
Broadland Business Park
Norwich
NR7 0LB
Tel: +44 (0)1603 663300
Fax: +44 (0)1603 692238
c.fish@lovewell-blake.co.uk

Sheffield
Chris Hill
Hawsons
Pegasus House
463a Glossop Road
Sheffield S10 2QD
Tel: +44 (0)114 2667141
Fax: +44 (0)114 2661456
ch@hawsons.co.uk
Doing business in The United Kingdom

**Solent**

**James Hadfield**
Menzies LLP
3000A Parkway
Whiteley
Fareham
PO15 7FX
Tel: +44 (0)1489 566280
jhadfield@menzies.co.uk

**Stirling**

**Hazel Burt**
French Duncan
Macfarlane Gray House,
Castle Craig Business Park,
Stirling, FK7 7WT
Tel: +44 (0)1786 451745
Fax: +44 (0)1786 472528
h.burt@frenchduncan.co.uk

**Thetford**

**Jamie Norton**
Lovewell Blake LLP
The Gables
Old Market Street
Thetford
Norfolk IP24 2EN
Tel: +44 (0)1842 755032
Fax: +44 (0)1842 762753
j.norton@lovewell-blake.co.uk

**Woking**

**Salvador Amico**
Menzies LLP
1st Floor Midas House
62 Goldsworth Road
Woking
Surrey GU21 6LQ
Tel: +44 (0)1483 758905
samico@menzies.co.uk