

GUIDE TO STARTING A BUSINESS IN THE UK





INTRODUCTION

This guide had been written to answer the most frequent questions that we are asked by international businesses who are considering starting a business in the United Kingdom.

You will find practical guidance on topics such as setting up legal entities to dealing with taxes and organising visas. The information in this guide has been compiled with knowledge acquired during the many years that we have been helping international businesses get started in the UK.

We hope you find this guide useful and if you have any questions we are here to help.

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WHY INVEST IN THE UNITED KINGDOM?

Britain has always been an international trading nation and was the world's first industrialised country. Today it is the fifth largest economy by GDP and one of the most globalised economies. In the wake of the Brexit vote, the UK government's aim is to ensure that Britain remains the top European location for international businesses.



1. ENTREPRENEUR FRIENDLY

The UK has successfully cultivated a great climate for international businesses. The World Bank's "Ease of doing business" survey in 2016, ranked the UK 7th globally.



2. SKILLED WORKFORCE

As home to some of the world's leading educational establishments and research facilities, Britain has a good supply of highly skilled labour.



3. COMPETITIVE TAX RATES

The UK Government is committed to creating the most competitive tax regime in the G20. The corporation tax rate has been on a steady decline and the government announced that it is likely to fall to 17% by 2020, the lowest tax rate in the G20.



4. FINANCIAL CENTRE OF THE WORLD

London is considered as the financial capital of the world and businesses have the option of raising capital through UK markets.



5. INNOVATION LEADERS

The UK has built up a strong reputation for being leaders in research and innovation and according to the Global Innovation Index 2016, the UK is the third most innovative economy.



6. ICT INFRASTRUCTURE

The UK has an extensive broadband and ICT infrastructure and one of the strongest in the world.



7. TRANSPORT

The UK has fully integrated airport, seaport, railway and road transport links to locations all over the world. Fast connections to Europe make the UK the perfect location.

With Brexit ahead overseas investment is more important than ever for the UK economy and the government's message is clear:

“Britain is open for business”

WHAT BUSINESS STRUCTURE SHOULD I USE?

The UK has a legal and regulatory framework that international companies need to be aware of when coming to the UK. The type of business structure you use will depend on your aims of coming to the UK. The most common structures that international businesses use are:

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graph TD; A[WHAT BUSINESS STRUCTURE SHOULD I USE?] --- B[LIMITED COMPANY]; A --- C[REPRESENTATIVE OFFICE]; A --- D[BRANCH];
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**LIMITED
COMPANY**

**REPRESENTATIVE
OFFICE**

BRANCH

LIMITED COMPANY (SUBSIDIARY)

Most companies set up a limited company because it offers many advantages and is going to facilitate growth of the business in the long run. Customers and suppliers prefer to deal with limited companies and it is the quickest and simplest entity type to set up requiring only £1 capital. It is not necessary to file the parent company accounts publicly on Companies' House, which is a requirement when filing branch accounts. Depending on the size of the company, an audit of the annual accounts may be obligatory.

REPRESENTATIVE OFFICE

When testing a new market, multinational companies sometimes use a representative office or a local agent. Depending on the activities carried out this may create a taxable presence, where compliance obligations need to be met.

The BEPS project has moved the boundaries in this area and it is important that inter-company agreements and contracts reflect the economic reality of the business functions.

A registration will still be needed at Companies House and HMRC.

BRANCH

The main difference between a subsidiary and a branch is that a subsidiary is a separate legal entity from the parent company, whereas a branch is legally the same entity. This potentially exposes the parent company to litigation as they are one legal entity. Just like a limited company, a branch will be registered at Companies' House, but a branch is more complicated to set up and substantial information is required from the parent company.

What compliance is REQUIRED?

No matter which of these structures is used annual compliance will be necessary. Each year private limited companies must prepare and file:

- full ('statutory') annual accounts and annual confirmation statement at Companies House
- a Company Tax Return with HMRC
- A register of persons with significant control is required to be kept up to date

Most information filed at Companies House is available to the public.

Annual accounts need to be filed 9 month after the year end and the tax return is due 12 months after the accounting year end. The tax payment is due 9 months and 1 day after the year end.

What compliance requirements are there for branches?

Branches also need to be registered at Companies house and in most cases overseas parent companies are required to file annual accounts at Companies House.

An overseas company should also notify Companies House of any changes to the original information delivered for registration as and when changes occur.

What about taxes?

The UK Government is committed to creating the most competitive tax regime in the G20 and has reformed the corporate tax system to make it more attractive to international businesses.

Corporation Taxes in the UK

The corporation tax rate has already been on a government announced that corporation tax could fall to 17% by 2020 – the lowest tax rate in the G20.

The UK has flexible and competitive rules for taxing the profits of multinationals – including a modernised Controlled Foreign Company (CFC) regime – as well as an extensive treaty network, making the UK an attractive location for headquarters, regional holding companies and global or regional business hubs.

UK incorporated companies and companies that are managed and controlled from the UK are liable to pay corporation tax in the UK on their worldwide profits. Other companies will be liable to corporation tax on trading profits derived from UK permanent establishments and UK sourced income.

VALUE ADDED TAX

Businesses who plan to trade in the UK should consider the implications of Value Added Tax (VAT) from the outset, as VAT can often get complicated.

WHAT IS THE REGISTRATION THRESHOLD IN THE UK?

All businesses who make taxable supplies in the UK must register for VAT once they exceed the annual registration threshold.

WHAT DO OVERSEAS TRADERS NEED TO CONSIDER?

For overseas traders, even if they are non-resident, the obligation to register can take effect in different situations and is often triggered by buying services from abroad, rather than selling goods or services. This can lead to a VAT registration being required earlier.

In some cases, the overseas traders may find that the VAT registration threshold can be as low as nil. It is important to register at the right time, because if a company registers for VAT late, HMRC will still expect to receive VAT on sales from the date that the business should have registered for VAT, which would significantly reduce their profit margin.

IS A VOLUNTARY REGISTRATION POSSIBLE?

There is an option to register for VAT voluntarily and many small or new companies do this to gain credibility with suppliers, to reclaim input tax, and also to avoid missing the compulsory registration date.

Once registered VAT is charged on sales (outputs) at 20% and paid to the tax authority (HMRC) net of any VAT that the business paid on purchases (inputs). In some cases a refund may be due.

A voluntary registration is not always possible and eligibility to register for VAT should be assessed before a VAT application is submitted.

Axada can assist businesses to assess when a VAT registration obligation arises and take care of the application process

How can I IMPORT TO THE UK?

Before you can start to import goods into the UK, you will need to register as an importer with the UK tax authority. This will normally require a VAT registration, so that import VAT can be reclaimed with the C79 certificate. An EORI number is also needed for selling goods across Europe.

Trial Importing

Businesses often test new markets by importing their products and using sales agents, before deciding whether to expand operations into a new market. If goods are stored in the UK a VAT registration may be needed.

B2B Sales of goods

Sales to VAT registered businesses in Europe can usually be dealt with by zero rating the goods. The customer will pay acquisition tax in the destination country and therefore a VAT registration is usually not required.

Distance selling

If you sell goods to non-VAT registered customers in other European countries you need to monitor the level of sales in each country. Each EU country has a distance selling threshold, normally Euro 35,000 or Euro 100,000. Once this threshold is crossed, a VAT registration in that country will be required.

Cross Border movement

Intra-country movements of goods often mean strict additional reporting requirements for businesses. The complicated VAT rules can result in VAT obligations in other countries, which trader often discover too late. It is important to take advice before moving goods internationally to avoid penalties and irrecoverable VAT.

Axada specialises in advising on cross border VAT issues and we would be pleased to answer any questions.



What do I need to know if I TAKE ON EMPLOYEES?

UK Immigration Laws

The legal requirements in UK are employer friendly but strict rules apply. It is a legal requirement for all employees to have employment contracts. It is a legal requirement for all employees to have employment contracts, although these can be in a very simple format. There are some minimum requirements as to what an employment contract should contain. These include basic information such as job description, rate of pay, working hours, holiday entitlement and notice period as well as health and safety clauses and disciplinary and grievance procedures. In the UK employers must pay minimum wages and these rates vary depending on the age of the employee. For any matters on work permits and employment issues with which we cannot assist ourselves we will put you in touch with our specialist legal contacts in the UK.

Employee withholding taxes - Pay As You Earn (PAYE)

As an employer, you normally have to calculate income taxes due on your employees' pay. PAYE is HM Revenue and Customs' (HMRC) system to collect Income Tax and National Insurance from employment. When paying your employees through payroll you need to make deductions for PAYE taxes and report these to HMRC before the payment is made to your employees. Employers also pay National insurance contributions in addition to the employees' National Insurance contributions deducted from their employees' pay. Foreign companies who send their employees to do work in the UK may need to register for a paye scheme. If you need further guidance contact our team for advice.

New rules on pension schemes

New pension laws are being implemented and most employers now need to provide work related pension schemes to all qualifying employees and make a contribution into the scheme.

Using subcontractors or agents

Instead of employing people from immediately some businesses start by use agents or subcontractors in the UK. Advice should be sought to ensure that it is not necessary to deduct taxes at source.



Sending employees to WORK IN THE UK

In 2017, the UK decided to leave the European Union and although currently there is no restriction on EU workers coming to work in the UK, that is likely to change.

Visa requirements

The UK operates a tier visa system and the most common options when sending employees to work in the UK from outside the EU are the sole representative visa and the Tier 2 visa. Work permits are issued by the Home Office UK Border Agency. (www.bia.homeoffice.gov.uk) If a non-European employee is sent to the UK to set up the new UK limited company or branch, a sole representation visa can be applicable. This must be applied for before the company starts to trade in the UK. After trading commences a sponsor license is usually applied for to relocate other individuals to the UK on a tier 2 visa.



Are there any tax advantages for expatriates in the UK?

Living in the UK as a foreign domiciliary has some tax advantages, such as foreign income and capital gains not being taxed in the UK as long as the funds are not remitted to the UK. When an individual has been resident in the UK for seven out of nine tax years a remittance charge is made to allow them to continue to use this method of being taxed.

Individuals who come to work in the UK are normally resident for tax purposes unless the days spent in the UK are very few. Under certain short term contracts, earnings outside the UK are not taxable in the UK as long as they are not remitted to the UK.

Will international employees working the UK be taxed twice?

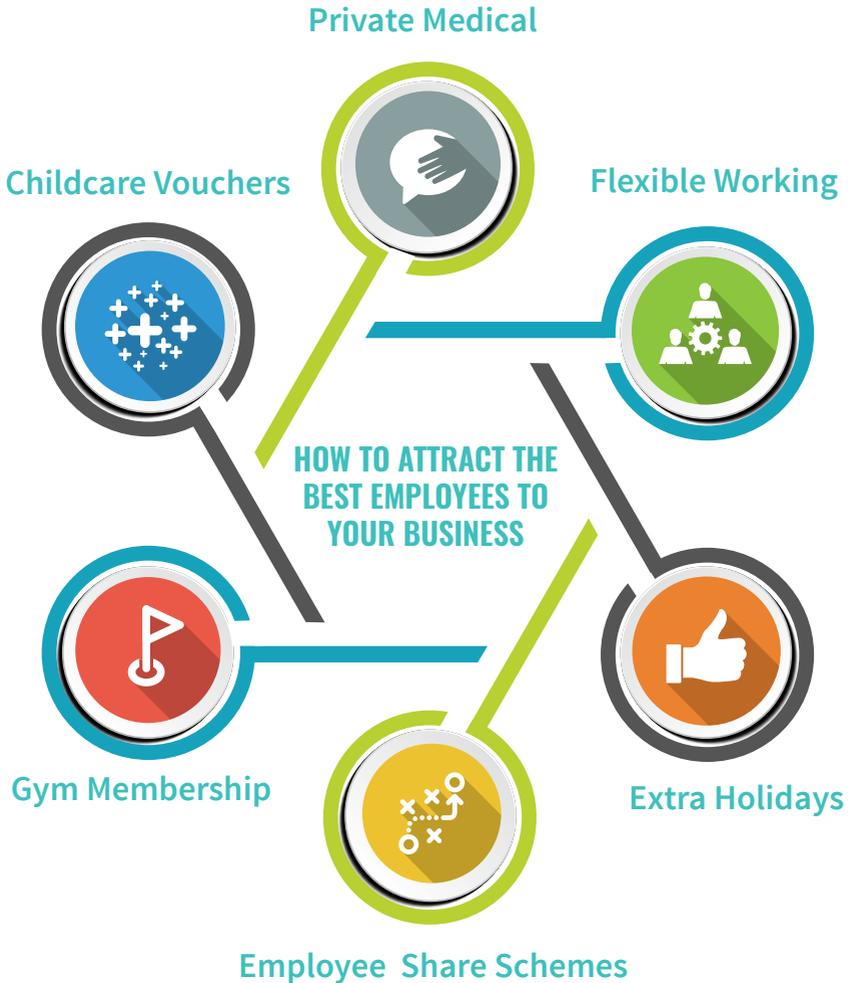
Sometimes earnings paid to internationally mobile employees on short term contracts can be exempt from UK PAYE taxes if the employee remains on the foreign payroll and the exemption is agreed with HMRC. Such arrangements may have additional reporting requirements and special conditions. Contact us for further information.

There are also other tax advantages for seconded employees, who stay in the UK for short periods. Employers can make tax free payments to seconded employees which include trips home, temporary accommodation and living allowances. Such arrangements may have additional reporting requirements and special conditions. Contact us for further information.

Finding EMPLOYEES

Attracting and keeping good employees in a competitive market can often mean having to offer desirable perks as part of the package. Whether you advertise a position yourself or use a recruitment agency, most positions come with some additional employment benefits.

We can advise you on planning a remuneration package and organise a benefits provider to put together a tailored benefits package. Usual benefits would include:



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Insurance AND BANKING

TYPES OF INSURANCE PLANS

Insurance against certain risks is compulsory in the UK. As soon as you employ staff you must take out employers' liability insurance. The main insurance protection

Buildings and Asset Insurance

to cover office buildings and contents, such as computer equipment, stock, cash and fraud.

Liability insurance

such as employers' liability, public and products liability, professional services liability, internet security insurance.

Employee insurance

such as personal accident, travel, private healthcare

Other insurance

includes motor and legal expense insurance

OPENING A BANK ACCOUNT

The first thing most new businesses will need to do is set up bank account in the UK. This is often a lengthy process and can take up to 6 months due to stringent due diligence requirements and money laundering regulations.

YOU SHOULD EXPECT TO PROVIDE MANY DOCUMENTS TO OPEN A BANK ACCOUNT



Our dedicated team can help you with opening a bank and finding an insurance broker for your new business

FINDING OFFICES

Before you start to search for an office you should make a list of the main requirements. This will help estate agents and office brokers determine what is suitable. Large cities in the UK have a variety of different office options, starting from a virtual office to shared open plan spaces for start-ups and large office buildings and warehouses. Most companies will lease office space in the UK and the main terms are always open to negotiation.

Here are some key factors to consider. Contact us if you need further assistance and we will put you in touch with professionals who can help you make the right choices.



Periodic rent reviews, rent increases are typically ever 5 years but can be negotiated



Rent free periods are often used as an incentive



Inducements may be paid as a cash benefit at the start of a lease



Length of lease and break clauses should be carefully considered for new businesses



Repair liabilities can add substantially to the cost



Other considerations include rateable values, service charges, VAT, stamp duty, registry fees, utility costs.



Axada supports start-up businesses, growing companies and international corporations expanding to the UK, with a comprehensive package of professional services to help them make their venture a success.

Our dedicated team will be pleased to assist you.

Contact us today,

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Welcome to the
United Kingdom