DOING BUSINESS IN THE UNITED KINGDOM

HLB (UK) Ltd

doing business in the United Kingdom

foreword

This booklet has been prepared for the use of clients, partners and staff of HLB International 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 consult us therefore before taking further action. HLB International and member firms cannot be held liable for any action or business decision taken on the basis of information in this booklet.

Laws in the United Kingdom that regulate businesses and taxes are numerous and complex. Therefore we would advise you to consult an HLB International member firm in the United Kingdom before taking any specific action.

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about HLB International

Formed in 1969, HLB International is a world-wide network of independent professional accounting firms and business advisers. The network comprises member firms in over 100 countries who, collectively, have over 1,750 partners plus 14,000 staff in 480 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 international matters can be obtained from any of the member firm partners listed in this booklet or from the Executive Office in London.

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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 very advanced due to the availability of international trade, London being its financial epicentre. Supported by a large international 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.

A Coalition Government was formed in May 2010 between the Conservatives and the Liberal Democrats with David Cameron appointed as Prime Minister.

Parliament's main roles include;

- Examining and scrutinising the work of the government
- Debating and making UK law
- Controlling finance by enabling the Government to raise taxes

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 as part of the EU, the UK is expected to ensure that its law is in accordance with EU law.

The UK, although part of the European Union (EU), has continued to use as its currency Pounds Sterling. Interest rates are set by the Monetary Policy Committee of the Bank of England.

The UK continues to have strong international links within both the EU and with other members of the British Commonwealth adding to the attractiveness of doing business in the UK.

Population

The population of the UK was 62million in the 2009 census. People of working age (aged 16 to 64 for males and 16 to 59 for females) represent 62 per cent of the total mid-2009 population. The average age was 39.5 in 2009. The UK has many racial and ethnic groups.

Business Habits

In the UK the use of first names is common even between subordinates and managers. Business can be conducted over lunch or dinner, and entertainment for clients and business contacts may be conducted at relaxed events such as sporting and social events. Normal business hours are 9am to 5pm and most offices are open 5 days a week from Monday to Friday. A significant proportion of businesses such as professional offices, are however, staffed for many more hours than this.

investment factors

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 Government and local incentives together with the UK's position and international links make it an attractive place to invest. These and other investment factors are considered below within the following sections;

- Government and local incentives
- EU incentives
- Sources of finance
- Other investment considerations

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. EFG will continue until 31 March 2015 enabling up to £600 million of additional lending in 2011/12 and over £2 billion in total between 1 April 2012 and 31 March 2015.

Businesses in most sectors will be eligible for the scheme, however it is primarily aimed at businesses with innovative ideas. You can borrow from a number of approved lenders including major UK banks, and the government will guarantee 75% of the loan up to £1million.

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 fund works as a 'funding escalator' aiming to fill the lending gap for investments between £2m and £10m 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. The grant is 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 by SMEs surrendering their losses in return for a cash payment 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 funds focus will be on start ups, small businesses and scientific entities.

UK Trade and Investment (UKTI)

UKTI aims to both enhance UK companies through overseas trade and investment, and attract direct foreign investment in the UK.

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, of course, means 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. Such a sale can take many forms including the admitting of a partner or, if you are in a company, issuing of additional shares to investors. It is typically a prudent idea to consult your accountant, as there are many significant legal ramifications to such a step.

Debt Financing Sources

Banks

The first source of funds that typically comes to mind when borrowing money, is a bank, which is why they are in business. 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 term loan may be used for the purchase of a specific asset such as a computer or a machine, or for taking the business to another level. Another example of this type of funding is a commercial mortgage. As your relationship with your banker develops, and your business becomes established, you may consider a longer loan which will be repayable in instalments.

Lease and Asset Based Financing

In today's business environment it is quite common to acquire equipment through lease agreements. Asset financing companies 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. non-contractual debt) is therefore released that much quicker. The factor and invoice discounter pays your business an advance on the turnover before it has actually 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

Venture Capital Companies

A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or companies. The investors are often 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 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.

Private Individuals

Very often, individuals who are successful in their own right and have accumulated substantial wealth, may be approached regarding investment in your business venture. Such individuals may believe that the success of your business will enhance theirs as well as help increase their personal wealth. These individuals, like a venture capital company, often want to participate in the management activities of your firm and help guide progress through representation on the Board of Directors.

The business acumen and contacts of these individuals can often be a valuable asset of your business. An individual investor can often react to opportunity much quicker than a venture capital firm and typically has only his own interests to serve as opposed to a financial backer or group of limited partners.

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.

Yourself & 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 future 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 the Europe's biggest share market and 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.

- Icap Securities and Derivatives Exchange (ISDX) is a venue for small and medium sized companies seeking to raise growth capital, achieve an independent market valuation and enhance their corporate profile.

Overall Financing Options

- Due to the current economic climate, 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:
  - 3 years of accounts
  - 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. In recent years a complex system of anti-avoidance legislation has developed which has removed many of the historic UK tax benefits of trusts. They are still an important tool for purposes of asset protection.

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).

They continue to be relevant for individuals coming from abroad to live or do business in the UK.

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.

You don't need a permit to work in the UK if you are:

- A British Citizen
- An European Economic Area (EEA) citizen
- A Swiss National

Work permits should 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
- Business transfers and takeovers (TUPE).

Many Europeans consider that the UK has a lower level of employee protection than other countries in continental Europe.

types of business organisations

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
- Sole trader
- UK branch of overseas company

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.

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 return, which contains information about the shareholders and directors, and the annual accounts must be filed with the Registrar of Companies. The deadlines for these can be seen in Appendix I.

Private Limited Company

A private company is the most common form of privately held company. These companies must have a minimum of 1 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. However, in the initial stages, some lending institutions can feel more comfortable lending to individuals rather than a company.

Private companies can be converted into public companies

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.

As well as adhering to the registration and reporting requirements of any limited company, a public company must adhere to the additional regulations of the stock market of which it is a member.

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

Listing on a stock market can be costly and time-consuming and there is a need for specialist advisers.

Company Limited by Guarantee

These companies do not have share capital but are guaranteed by the members who agree to contribute a fixed nominal 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 is similar to sole trading and the relatively new 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 would be split between partners. As the liability is unlimited, personal property is at risk.

A partnership agreement, which governs the partners, should be agreed by a lawyer. The agreement can stipulate the particulars usually covering the profit share split and if a certain partner personally holds unlimited liability. There is however no legal requirement that a partnership agreement is drawn up.

Limited Liability Partnership

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.

As with a limited company there must be at least two appointed designated members and annual returns and annual accounts must be filed at Companies House as governed by the Companies Act 2006.

The main benefit is that personal assets of partners are protected. Due to the added regulation requirements there are higher formation costs than in a traditional partnership.

The limited liability partnership regulations are derived principally from the Limited Liability Partnership Act 2000 and various statutory instruments which adopt and adapt certain parts of the Companies Act 2006 for limited liability partnerships.

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, it lacks the prestige 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.

The constitutional documents of the foreign company, details of the directors and the latest set of filed accounts must be submitted to the Registrar of Companies within a month of setting up the branch. Additionally the names and addresses of those resident in the UK who can receive documents on behalf of the foreign company must be supplied.

Joint Ventures

A foreign company may form a joint venture with a company 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) were established after the merger of the Inland Revenue and Customs and Excise. The department is primarily responsible for the collection of

- Corporation tax
- Income tax
- Capital gains tax
- Indirect taxes including value added tax (VAT)
- Stamp duty

The taxation legislation is extensive and can be confusing for an individual starting a business in the UK. We have provided in Appendix II details of the rates of tax and the reporting requirements. 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 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.

Financial year to 31/3/14	Profits	Tax Rates
First	£300,000	20%
Next	£1,200,000	23.75%
Over	£1,500,000	23%

Where profits exceed £300,000 but are less than £1,500,000, the initial £300,000 is charged at 20% and the balance is taxed at 23.75% marginal rate.

There are special rules to calculate the tax rates applicable for profits falling between the small companies and normal rates so as to ensure that the tax charge rises progressively. Under Corporation Tax Self Assessment, a company is required to make an estimate of its own liability to corporation tax and pay that liability by the normal due date, nine months after the end of the accounting period, without an assessment being raised.

The company is required to submit its completed tax return (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. Once the company agrees its liability with the HMRC, there will be a settlement of any balance due or overpaid. Interest will be charged or paid from the normal due date on the balance.

Companies with profits in the highest bands (as above) for two years pay tax in advance quarterly instalments. These are due six months and 14 days after the start of the accounting period then nine months and 14 days, 12 months and 14 days with the final tax paid just 15 months and 14 days after the start of the period.

Dividends

Dividends are paid out 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

Where groups are concerned, the corporation tax bands are divided by the number of non-dormant, worldwide, associated companies to ensure the group cannot take advantage of the prevailing tax rates shown above.

UK group companies can surrender trading losses between group companies 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.

UK branches of overseas companies

Non-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.

Transactions between the UK branch and the overseas company are deemed to have been conducted at arm's length. There are stringent rules on transfer pricing.

Foreign tax

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. 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

The UK introduced a statutory residence test from 6 April 2013. There are various tests to identify if 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. The sufficient ties test 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 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 the income and gains are not remitted in the UK then 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 in 7 out of 9 consecutive 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 £50,000 once an individual has been resident in the UK for 12 out of 14 tax years.

To avoid charges on worldwide income and gains, non-UK domiciled individuals must claim the remittance basis.

Tax rates

Sole traders and partnerships (and income of members of a limited liability partnership) are charged income tax at the rate applicable during the fiscal years (6 April-5 April).

The rates are as follows:

2013/14	Income	Rates
Basic – Under	£32,010	20%
Higher – over	£32,010	40%
Additional – over	£150,000	45%

There may also be a liability to Class 2 and Class 4 national insurance Contributions, depending on the level of profit in each fiscal year. Class 2 contributions are at a weekly stamp rate of £2.70 (2013/14). Class 4 NI is payable by the self-employed on profits.

Class 4 contributions are levied at 9% on profits between £7,755 and £41,450 (max) for 2013/14. There is a further 2% charge on profits in excess of the upper limit of £41,450.

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 business tax liability.

Therefore, half is paid by 31 January in the year of assessment, the other half by 31 July in the year following the year of assessment. The third instalment will be any balance due (payable the following 31 January) or any amount repayable by HMRC if your final liability is lower than the amounts paid on account.

Under self-assessment your income tax return, which encompasses your trading results, needs to be filed by 31 January following the tax assessment year if filed electronically. The 31 January deadline is brought forward to 31 October for paper returns.

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 an appropriate rate, in the same way as income and 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 by either valuing the cost as follows:

If the asset was owned on 31 March 1982 then the cost price is assumed to be market value and the indexation relief is used for inflation between sale date and 31/3/1982. If the asset was bought post 31 March 1982 the allowance is made for inflation by reference to the cost of the asset.

There are various exemptions and reliefs that may apply to mitigate against corporation tax arising on chargeable gains. For instance, it is possible that the disposal of substantial shareholdings (>10%) in trading companies can be exempt from corporation tax where certain conditions are met.

Individuals

Individuals are charged at a capital gains tax rate of 18%, 28% or a combination of the two rates on any capital gain, the applicable tax rate depends on the total amount of the individuals taxable income. If the asset 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 £10m.

There are also annual exemptions available which can reduce any capital gain charge.

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:

a) In the United Kingdom;
b) By a taxable person;
c) 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:

i) 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 £79,000 from 1 April 2013.
ii) At any time there are reasonable grounds for believing that the value of his taxable supplies in the next 30 days will exceed the £79,000 limit.

In the most common situation, i.e. (i) above, 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 £79,000. If only VAT-exempt supplies are made e.g. sales of refurbished dwellings VAT registration cannot be applied for and VAT on expenditure can not be reclaimed.

Taxable Persons

It should always be remembered that it is a person that is registered for VAT and not a 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 £79,000.

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, e.g. the services of a physiotherapist are exempt, whilst the services of an acupuncturist are standard rated.

VAT Rates

There are three rates of VAT:

- standard = 20%
- reduced = 5% – for certain supplies of fuel and power, sanitary goods and certain construction services and
- zero

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.

Penalties

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

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

Online filing and payment

All businesses are now required to submit returns and payments electronically.

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 the HMRC.

Upon registration, HMRC will send to you guidelines on operating PAYE, National Insurance, Statutory Sick Pay and Statutory Maternity Pay (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. This 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.

The tax and national insurance should be paid to HMRC by the 19th of the month following that in which the salaries were paid.

It is mandatory for employers with 250 or more employees to make their payments electronically. Electronic payments should reach HMRC's bank account be the 22nd of the month following that in which the salaries were paid.

The current rate of employee's national insurance in the UK is 12%.

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

From 6 April 2013 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.

appendix I

Accounting and Audit Requirements

Below is a brief summary of the accounting and audit regulations and requirements in the UK.

Limited Companies (including public limited companies)

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

- Prepare and submit annual accounts to the Registrar of Companies. These accounts are available for public inspection although for smaller companies abbreviated accounts may be filed. Dormant subsidiaries are able to take exemption to not prepare and file financial statements.
- Maintain accounting records, registers and minutes of director and shareholder meetings.
- 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

A company, to qualify as small and be eligible for audit exemption, must satisfy two of the three conditions, for two consecutive years;

- Annual turnover of not more than £6.5m
- Balance sheet gross assets of not more than £3.26m
- 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 EEA. The consolidated accounts, translated into English, must be filed in the UK along with a resolution from the shareholders and a statement from the parent guaranteeing the liabilities of the exempt subsidiary.

A company is however not entitled to the subsidiary exemption if it is an ineligible company. 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 financial statements in accordance with UK GAAP (UK Accounting Standards) and Company Law.

Unlisted companies (including unlisted Public Limited Companies) can choose to prepare their financial statements 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.

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

	2012/13	**2013/14**	**2014/15**	**2015/16**
Small companies rate (SCR)	20%	20%	20%	20%
SCR limit	£300,000	£300,000	£300,000	£300,000
SCR marginal rate limit	£1,500,000	£1,500,000	£1,500,000	£1,500,000
Marginal rate	25%	23.75%	21.25%	20%
Full rate	24%	23%	21%	20%

Capital Allowances

Plant and machinery – Annual Investment Allowance (AIA)

The AIA gives a 100% write-off on most types of plant and machinery costs, including integral features and long life assets but not cars, of up to £250,000 pa for expenditure incurred after 1 January 2013.

From 1 January 2015 the maximum amount of AIA is scheduled to reduce to £25,000pa.

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%. An 8% rate applies to expenditure incurred on integral features and on long life assets.

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

Income Tax

Main personal reliefs	**2013/14**
Personal allowance	
Basic	£9,440
Age 65-74*	£10,500
Age 75+*	£10,660
*Age allowance income limit	£26,100
Blind person	£2,160

Reduce personal allowance by £1 for every £2 of adjusted net income over £100,000.

Personal allowances are not available to many non-UK residents.

Tax Rates

	2013/14
Rate	**Taxable Income**
10% (where the individual only has savings income)	£0 – 2,790
20% (except Dividends at 10%)	£0 – 32,010
40% (except Dividends at 32.5%)	£32,010 – 150,000
45% (except Dividends at 37.5%)	£150,000 and over

Other income taxed first, then savings income and finally dividends.

Income Tax Reliefs and incentives

Annual limits	**2013/14**
Enterprise Investment Scheme*	£1,000,000
Seed Enterprise Investment Scheme**	£100,000
Venture Capital Trust*	£200,000
Individual Savings Accounts	
Total overall investment	£11,520
Stocks & shares mini ISA	£11,520
Cash mini ISA (only)	£5,760
Gift Aid and Payroll Giving Scheme	No limit

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

Capital Gains Tax

Annual exemption	**2013/14**
Individuals	£10,900
Trusts	£5,450

Entrepreneurs' Relief
The first £10m of qualifying gains are charged at 10%.

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 – Not contracted-out		**2013/2014**
Weekly earnings	**Employee**	**Employer**
Up to £149 (up to £148 for Employer)	Nil*	Nil*
£149.01 - £797 (over £148 for Employer)	12%	13.8%
£797 and over	2%	13.8%

* Entitlement to contribution-based benefits retained for earnings between £109 and £149 per week.

NATIONAL INSURANCE CONTRIBUTIONS (CONTINUED)

Class 1A (employers)	13.8% on employee taxable benefits
Class 1B (employers)	13.8% on PAYE Settlement Agreements
Class 2 (self-employed)	flat rate per week £2.70 small earnings exception £5,725 pa
Class 3 (voluntary)	flat rate per week £13.55
Class 4 (self-employed)	9% on profit between £7,755 and £41,450 plus 2% on profits over £41,450

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