DOING BUSINESS

IN THE UK

The network for doing business

CONTENTS

1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in 100 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in the UK has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably, they are both general, subject to change, and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current as at April 2024.

We look forward to helping you do business in the UK.

2 – BUSINESS ENVIRONMENT

BACKGROUND

The UK has a business environment considered by many to be one of the worlds most sophisticated. It has a supportive regulatory structure, good governance, strong government and world-class research facilities: as such, it is an attractive proposition for businesses of all sizes.

The UK is one of the major global economies: it ranked as the sixth largest global economy based on 2022 GDP figures published by the World Bank[1].

Following Brexit, there has been a transition in the UK's relationship with the EU. The UK-EU trade and co-operation agreement was signed 30 December 2020 and came into force on 1 May 2021[2]. More recently, the Windsor Framework has simplified trade arrangements between GB, NI and the EU[3]. It introduces green and red lanes for the movement of goods, based on a trusted trader scheme. Implementation of the Framework is happening in stages up until 2025. Guidance from the UK government[4] is being updated as new details become available.

The UK has also signed a deal that should see it becoming the first European country to join The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2023[5]. The CPTPP eases trade between 11 Asia and Pacific members and reduces tariffs. While the initial impact on the UK's economy is expected to be modest, the government has stressed that it is looking at the future potential of the markets concerned[6].

The UK has actively participated in the global discussions around climate change, and has set ambitious emission reductions milestones for 2030 and 2037 as part of the government's plan for achieving net zero by 2050. In the last three decades, the UK has already almost halved its emissions[7]: in 2020, the UK received 43% of its electricity from renewable sources[8]. The Climate Change Committee submits an annual progress report to Parliament on movement towards net zero. The last report[9], submitted in June 2023 praised the transparency of the Carbon Budget Delivery Plan[10] but expressed concerns at the slowness of policy development raising doubts about reaching the net zero target.

Economic sanctions imposed on Russia following the invasion of Ukraine on 24 February 2022, and the backlash in terms of inflated gas and oil prices and disruptions to supply chains across the world contributed to higher inflation rates, reaching 11.1 in October 2022[11]. The rate has since fallen — the Consumer Prices Index rose by 2.3% in the 12

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[1] World Development Indicators database, World Bank, 18 December 2023 [accessed 12 March 2024]
[2] The EU-UK Trade and Co-operation Agreement. European Commission [accessed 30 May 2024]
[3] Changes to trade with NI following Brexit, UHY Hacker Young, 28 February 2023
[4] The Windsor Framework- further detail and publications. GOV.UK [accessed 12 March 2024]
[5] UK-Asia trade deal to boost UK economy by 0.08%, BBC, 31 March 2023 [accessed 12/03/2024]
[6] ibid
[7] UK admits revised net zero strategy will fail to hit emission targets. FT, 30 March 2023
[8] How much of the UK's energy is renewable? National Grid [accessed 30/05/2024]
[9] Progress in reducing UK emissions – 2023 Report to Parliament Climate Change Committee [accessed 12 March 2024]
[10] Carbon Budget Delivery Plan, Department for Energy Security and Net Zero, 30 March 2023 [accessed 12 March 2024]
[11] Rising cost of living in the UK, Research Briefing, House of Commons Library, 8 March 2024

months to April 2024[12] — although it is still above the Bank of England's target figure of 2%. Challenges with labour supply are reported by the BBC[13] as one factor in the persistence of high inflation.

Current changes to company law[14] and the evolution of Companies House into more of a regulatory type organisation have been designed to strengthen AML procedures and create greater transparency regarding company information which should provide more reassurance to potential investors. While the implementation of most of the measures will take time, the initial wave of changes came into effect on 4 March 2024[15] (see comments regarding registration requirements for private companies for more detail).

It is important that businesses considering investment in the UK are informed of the latest government requirements concerning company formations, taxation and company filing requirements. Companies also need to be aware of corporate governance requirements, particularly ESG (Environmental, Social and Governance) considerations.

GEOGRAPHY

The United Kingdom (UK) comprises Great Britain (England, Wales and Scotland) and Northern Ireland. It occupies an area of approximately 243 square kilometres.

POPULATION

The UK population was estimated as 67.0 million people in mid-2021.[16] It is projected to rise to 73.7 million over the next 15 years to mid-2036.[17]

A substantial proportion of the population lives in cities, the largest of which, by a considerable margin is London, followed by Manchester, Birmingham, Leeds and Glasgow[18].

LANGUAGE AND ETHNICITY

The official language is English. In 2021, 91.1% of usual residents in England and Wales, aged three years and over had English as a main language.[19] A further 7.1% of the population were proficient in English (English or Welsh in Wales) but it was not their main language. [20]

The most common languages spoken in England and Wales in 2021 other than English (English or Welsh in Wales) were:
Polish (1.1%)
Romanian (0.8%)
Panjabi (0.5%)
Urdu (0.5%)[21]

TRANSPORT

The UK's rail and road network runs mainly north-south.

[12] Consumer price inflation, UK: April 2024, ONS Release date 30 May 2024
[13] What is the UK inflation rate and how does it affect me? BBC, 11 March 2024
[14] Economic Crime and Corporate Transparency Bill, UK Parliament [accessed 30 May 2024]
[15] Changes to UK Company Law and Companies House powers, UHY Hacker Young, March 2024
[16] National population projections - Office for National Statistics 2021-based interim, 30 January 2024
[17] Ibid
[18] Largest urban agglomerations in the United Kingdom in 2023, statista
[19] Language, England and Wales: Census 2021
[20] Ibid
[21] Ibid

High speed rail networks enable journey times between London and Birmingham of 76 minutes and London to Manchester of just over two hours.[22] The HS2 rail project will transform rail journeys between London and Birmingham with more services and faster journeys. This is due for completion in the early 2030s.[23]

Motorways across the UK allow speeds of up to 70 mph. Vehicles are driven on the left.

Major ports include: Port of Felixstowe, Suffolk; Port of Southampton, Hampshire; Port of London; Port of Liverpool, Merseyside; Port of Immingham, Lincolnshire; Port of Dover, Kent; Port of Grimsby, Lincolnshire; Port of Milford Haven, Wales; Port of Bristol and Port of Tees and Hartlepool.[24]

In 2020, the government consulted on proposals to create up to ten Freeport's across the UK.[25] A UK Freeport is a geographical area with a diameter up to 45km which is closely linked to a seaport, airport or rail port. They are allowed to import goods temporarily without the payment of tariffs, excise duties and other taxes before the goods are shipped on.[26] The port areas also benefit from tax breaks to encourage construction, private investment and job creation.[27] Eight have already been set up in England and there will be two freeports in Wales (the Celtic Freeport and Anglesey Freeport) and two in Scotland (Cromarty Firth and the Forth).

The channel tunnel (31.5 miles long, of which 23.5 miles is below sea level)[28] links the UK with France. Journey times via the Eurostar train service from London to Paris are 2 hours 22 minutes and between London and Brussels 2 hours 1 minute.[29]

The UK is well served by airports: there are over 40. London Heathrow Airport is the busiest with over 70 million passengers per year.[30] The other major airports in London are: Gatwick Airport, Stansted Airport, Luton Airport, Southend Airport and City Airport.[31] The busiest regional airports based on passenger numbers are: Manchester Airport, Edinburgh Airport, Birmingham Airport, Bristol Airport and Glasgow International Airport.[32]

TELE-COMMUNICATIONS

There are four major mobile networks in the UK (EE, Three, O2 and Vodafone).[33] All have launched 5G services, although access is not available in every city.[34] Ofcom, the government telecommunications regulator provides information on availability of services in a particular area with its checker.[35]

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[22] National Rail Enquiries
[23] What is HS2? HS2 [accessed 13 March 2024]
[24] Top 10 Essential Ports in the United Kingdom: Gateways to Commerce and Trade, GoComet, 19 January 2024
[25] UHY Hacker Young 2021 Budget Summary 2021
[26] Eight English "freeports" to be created with controversial tax breaks, The Independent, 4 March 2021
[27] Ibid
[28] The Channel Tunnel. Eurostar
[29] Ibid
[30] UK Airports, trainline [accessed 14 March 2024]
[31] Ibid
[32] Size of Reporting Airports February 2023 – January 2024, Civil Aviation Authority
[33] Mobile Networks in the UK 2024. Telegraph.co.uk [accessed 14 March 2024]
[34] Where Is 5G Available in the UK? (Updated for 2024), Lifewire, 23 January 2024
[35] Broadband and mobile coverage checker, Ofcom [accessed 14 March 2024]

THE ECONOMY

CURRENCY
The currency is pounds sterling (GBP). The interest rate is set by the Monetary Policy Committee (MPC) of the Bank of England, the UK's central bank. Dates for MPC announcements on the Bank Rate are published on the Bank of England website.

GROSS DOMESTIC PRODUCT
GDP in 2023 is estimated to have increased by 0.1% overall compared with 2022, although there was a decrease in GDP in the last quarter of 2023.[36]

There was a modest return to growth in Quarter 1, 2024 with GDP rising 0.2 per cent by contrast with the same quarter a year ago.[37]

EMPLOYMENT
The UK employment rate (for those aged 16 to 64 years) for January to March 2024 was estimated at 74.5%.[38]

SOURCES OF FINANCE

BANKS AND BUILDING SOCIETIES
Deposit-taking institutions may be broadly divided into two sectors: banks and building societies. Both sectors are currently regulated by the Financial Conduct Authority (FCA). This regulatory organisation is an independent, non-governmental body.

The main institutions within the British banking system are the Bank of England, retail banks, investment banks and overseas banks.

The Bank of England is the UK's central bank and is responsible for setting the UK's official interest rate and for maintaining a stable and efficient monetary policy and framework.

Although independent from the government, it remains the government's banker and chief banker to the banking industry generally.

The UK retail banking market is dominated by a few large retail banks, most notably HSBC, Royal Bank of Scotland Group (includes NatWest), Lloyds Banking Group, Barclays, and Santander. Retail banks offer a wide variety of financial services to both companies and individuals.

Investment banks manage investment portfolios and corporate finance on behalf of their clients, most of whom are corporate companies.

Many overseas banks have subsidiary operations in the UK which offer retail banking services. However, these tend to be niche operations and generally do not provide comprehensive geographic or service coverage.

The British Business Bank is a UK Government-owned, independently run development bank that encourages diversity and competition in both equity investment markets and debt finance markets. Its focus is towards making finance markets work better for smaller UK businesses. It does this by working with new market entrants and supporting the

[36] GDP quarterly national accounts, UK: October to December 2023, ONS, 28 March 2024
[37] GDP first quarterly estimate, UK: January to March 2024, ONS, 10 May 2024
[38] Employment in the UK: May 2024, ONS

growth of alternative lenders and committing capital to equity programmes investing in large-scale, private sector managed funds or funds providing later stage capital, and alongside business angels and other early-stage equity investors.

FINANCING OPTIONS

There are many sources of finance for businesses and choosing the right finance is an important decision.

One of the key factors in determining the best source(s) of finance will be the stage of development of the business so far. For a start-up business, finance borrowed from or invested by family and friends may be sufficient to get the business started, but more substantial funds will be needed later as the business grows. For more established businesses, there may be a range of finance options, either debt-based or equity-based (or a combination of both).

DEBT FINANCE

Banks are a traditional source of debt finance, but have always been and continue to remain, risk-adverse. The economic challenges post pandemic have caused difficulties for the debt market which are only recently beginning to ease as interest rates stabilise. If you have some security to offer, it will make getting a bank loan easier, but still not certain. A clear and concise business plan will help as will a track record of success and a good credit history.

The UK debt market is undergoing change due to the entry and growth of alternative finance providers. However, the term ‘alternative finance’ leads to significant confusion owing to the range of products, services and platforms that fall under this umbrella term. The term is mainly used in reference to the large number of internet-based platforms on which borrowing and lending takes place between private individuals and businesses. The alternative finance market is less regulated and has seen new entrants flourish due to the growth in the digital economy.

Challenger banks are sometimes confused with alternative finance providers, owing to their size and distribution system used, as many of these newer banks have an online digital presence rather than a physical one. These lenders are relatively small retail banks and have been set up with the intention of competing for business with the large, long-established national banks. However, there is a significant difference between the challenger banks and alternative finance as the challenger banks have to comply with the same rules and regulations as traditional banks, and your money will still be protected under the Financial Services Compensation Scheme. In order to be defined as a bank, the company must be authorised to accept retail deposits by the UK financial regulator, the Prudential Regulation Authority (PRA).

Some challenger banks were created following divestment from larger banking groups, others are smaller subsidiaries of larger banking or retail groups, a wind-down of a failed large bank or a new Fintech based platform. Crucially, these new banks still rely on customer deposits to build their balance sheets and lend money to people. Some better-known examples include Clydesdale and Yorkshire Bank Group (CYBG)/Virgin Money, Metro Bank, Tesco Bank, Aldermore/Abacus bank, Charter Savings Bank, Shawbrook and Atom Bank, but there are many others.
Asset based lending (ABL) is often provided by specialised companies (including challenger banks) and can be a source of funds for capital equipment and/or debt factoring facilities.

Asset finance includes leasing and higher-purchase and is used to obtain the use of equipment, without acquiring or to spread the cost. Finance is secured fully or partly on the asset being financed. A lease is where the finance company buys and owns the equipment, which is then rented to the leaser for an agreed term and fee, whereas in a hire purchase a business wants to own the equipment but spreads the capital and interest payments over a predetermined period. Asset finance is provided by specialist providers, but can be provided indirectly through the equipment suppliers and brokers.

A more recent option for some larger companies may be to issue corporate bonds. These are usually long-term debt instruments issued directly by the company and these can be listed on stock exchanges and may be traded. However, this market is still in its infancy and is not generally available for any but the larger well-known businesses.

There are many variations of these basic sources of finance and you should seek advice from someone with experience to gain a full understanding of the advantages and disadvantages of each type.

EQUITY FINANCE

Equity finance can be raised from a range of different providers. The main providers are the venture capital/private equity firms and business angels.

Larger businesses can also seek to raise equity on a public market, such as such as the Main Market of the London Stock Exchange (LSE), Euronext NV or an exchange-regulated market, such as AIM (the LSE's Alternative Investment Market) and the Aquis Stock Exchange. These equity markets provide the means of raising capital from the public for UK and international companies through equity, debt and depository receipt issues. The UK IPO (Initial Public Offering) market has seen reduced activity in the last two years but there is hope that activity will increase going forwards.

The UK is home to Europe's largest share market and the attraction of London as a venue for the listing and trading of shares in companies of all types has established it as one of the leading equity markets in the world. Overseas companies are actively encouraged to utilise the UK equity markets to raise capital in increasingly global equities markets. UK advisers and investors are also active on many other European exchanges.

As with debt finance, there are many variations within the equity markets and you will need to seek advice from someone with relevant experience to gain a full understanding of the advantages and disadvantages of each.

VENTURE CAPITAL/ PRIVATE EQUITY

The UK has a strong venture capital/ private equity market – the equity and debt financing of unquoted companies from company start-up to expansion, along with management buyouts and buy-ins of established companies. The industry invests in every sector of the economy and across all regions of the country and worldwide.

ACCELERATORS/INCUBATORS

Accelerators/incubators are companies or organisations that help start-ups develop. They are similar to each other so there is often a crossover in services provided such as financial and technical support, management training and coaching or office space with the intent of creating an early-stage community. The difference between the two is that most incubators charge rent or fees for physical space and support, whereas some accelerators will provide services but will take a small amount of equity. They do this with the aim of identifying 'support networks' that help to commercialise and develop start-ups, often with the ultimate goal of finding additional investors.

Accelerators/incubators are often sponsored and supported by private companies, municipal entities and public institutions, such as colleges and universities, and can be used as a catalyst tool for either regional or national economic development.

BUSINESS ANGELS

Angel investors are usually wealthy individuals who provide their own money for start-up or early-stage companies in exchange for equity and/or convertible debt. They sometimes work together with other angel investors or with other finance providers.

CROWDFUNDING

Smaller companies are increasingly turning to equity crowdfunding to raise capital, primarily for early-stage finance needs but increasingly for development capital as well. This can be a means to connect companies with many hundreds or thousands of potential investors and can be a viable alternative to angel or venture capital finance.

PEER-TO-PEER LENDING

These are in the main internet-based platforms where lenders are matched with borrowers. Peer-to-peer (P2P) loan sizes range from a few thousand to several millions of pounds and have set criteria to define which businesses can borrow through the platform. Key advantages for a borrower are that it is relatively quick compared to traditional lending and allows for a mixture of investors. Likewise, lenders can choose the amount, consider the risk versus reward, and choose to make investments across one or multiple businesses, subject to the set criteria. Whilst platforms facilitate the lending, undertake credit assessments and other risk management, they do not act as a counter-party to the loan and contracts are direct between the investor and the borrower. P2P lending is regulated by the FCA and seen as an alternative to a bank loan.

OTHER SOURCES OF FINANCE

These can include government-sponsored initiatives. If funds are needed to help with exports, then export finance may be used to mitigate risk of default or delayed payments.

TURNAROUND, RECOVERY AND INSOLVENCY

There is a strong rescue culture in the United Kingdom, which, in the appropriate circumstances, includes options for dealing with a company in financial distress as alternatives to winding up. UK legislation promotes a rescue culture and encourages a company to seek those alternative solutions to its financial predicament and survive as a going concern. However, should the need arise, there is an established legal framework that enables the closure of a business if a company is insolvent or creditors, entitled to do so, wish to enforce their debt.

There are several legislative frameworks that are relevant to Turnaround, Recovery, and Insolvency in the UK. For the purposes of this summary, we focus on the two primary pieces of legislation being:

- The Insolvency Act 1986 (IA 1986); and
- Corporate Insolvency and Governance Act 2020 (CIGA 2020)

TURNAROUND

The CIGA 2020 introduced temporary measures to insolvency laws to assist businesses facing financial difficulties during the COVID pandemic. These temporary measures were phased out over the following two years and are no longer in place, albeit measures to remove the threat of wrongful trading may still be relevant where a company, which enters administration or liquidation, was insolvent during the prescribed period.

However, the CIGA 2020 also created permanent legislation promoting business rescue, which provides a company facing financial distress with alternatives to formal insolvency. These are:

- A Court sanctioned restructuring plan that, if it is fair and equitable, binds creditors. While the plan is voted on by creditors, the Court can impose the plan on dissenting creditors.
- A moratorium ring fencing a company from creditor enforcement action, except without leave of the Court, while it pursues a rescue or restructuring plan. While the moratorium is overseen by a monitor (a licensed insolvency practitioner) the day-to-day operation of the company remains with the directors.
- A prohibition on contractual termination clauses being enforced when a company enters an insolvency process, a moratorium, or begins a restructuring plan. This includes preventing suppliers from ceasing supply to a company going through a rescue process, except where hardship is caused to their own businesses through that continued supply. The CIGA 2020 includes safeguards for suppliers to ensure that the costs of the continued supply are met.

FORMAL INSOLVENCY

While the legislation introduced by the CIGA 2020 offers a reasonable alternative to formal insolvency, the associated costs of Court sanctioned restructuring and moratorium make them restrictive and therefore it is unlikely to be a process affordable and therefore utilised by the majority of Small to Medium Sized Enterprises. Where such restriction applies, or where the circumstances require, the IA 1986 offers a range of formal insolvency legislation that either allows a company's rescue or, where necessary, enables its winding up. These processes can be company/director or creditor driven.

The range of formal insolvency processes available are summarised in the following table:

	Who can initiate?	**Objective**	**Moratorium**
Administration	Directors/company Floating charge holder The Court [39]	Rescuing the company as a going concern; or Achieving better outcome than liquidation; or Realising the property of the company to make a distribution to secured or preferential creditors.	Yes
Company Voluntary Arrangement	Directors Administrator Liquidator	Negotiate and enter a binding arrangement with its creditors for the payment of its debts. Allow for the survival of the company as a going concern.	Creditor's claims cannot be enforced once CVA commenced
Creditors Voluntary Liquidation	Directors initiate, but shareholders to pass special resolution	Sell the Company's assets. Bring or defend legal actions. Investigate affairs of company. Pay dividends, where monies are available for creditors.	No, but liquidator can apply for stay of any proceedings
Administrative Receivership	Holder of floating charge pre-Enterprise Act [40]	Realise the assets of the company, subject to the security under which appointed, for the benefit of the appointing secured creditor.	No
Compulsory Liquidation	The Court[i]	Sell the Company's assets. Bring or defend legal actions.	Yes

		Investigate affairs of company. Pay dividends where fund available to creditors.	

i The Court on application by its directors, a creditor(s), its liquidator, or it's supervisor if subject to company voluntary arrangement.
ii Following the introduction of the Enterprise Act 2002, the scope of the Administrative Receivership has much diminished and generally only can be initiated by holders of qualifying floating charges that existed prior to 15 September 2003.
iii On application by a creditor, the company, or the Secretary of State

MEMBERS VOLUNTARY LIQUIDATION (MVL)

Where the directors of a company consider that it can pay all of its debts plus statutory interest within 12 months of the appointment of a liquidator, it may be placed into MVL. Predominantly, the decision to place a company into MVL is made due to:

- The retirement of existing directors/owners with no succession arrangements.
- Reorganisation or restructuring strategies.
- The purpose for which the company was established has come to an end.
- The realisation of the company's assets to enable distribution to its shareholders.

DIRECTORS DUTIES

There are various duties and obligations mandated by the Companies Act 2006 on directors, which include:

- To act within the powers as set out in the company's Articles and Memorandum of Association
- To promote the success of the company
- To exercise independent judgement
- To exercise reasonable care, skill, and diligence
- To avoid conflicts of interest
- To not accept benefits from third parties
- To declare any interest in proposed arrangements with the company

Directors may incur personal liability and face potential disqualification from acting as a director of a company in the UK for their acts or omissions in directing a company.

The IA 1986 empowers the Court on the application of a liquidator or administrator of a company to make orders requiring a director to make a personal contribution where the director is found guilty of:

Wrongful Trading - failure to minimise the potential loss to creditors once a company becomes insolvent and knew, or ought to have known, that there was no prospect of avoiding insolvent liquidation.

Transactions at an undervalue - execution by a director of a transaction where the consideration paid is less than its value.

Preferential transactions – where the motivation of a transaction is to put a third party in a better position than they would have been on liquidation.

Transactions defrauding creditors – where the purpose of the transaction was to put the property of the company beyond the reach of its creditors.

Fraudulent trading – similar to wrongful trading, but with a criminal aspect as it is evidenced that there was an intent to defraud.

Misfeasance/breach of duty – breach of fiduciary duty by misapplying, retaining, or becoming accountable for any money or property of the company.

In circumstances where directors are concerned as to the financial stability of a company, they should seek immediate advice from a qualified insolvency practitioner in order to avoid or mitigate any consequences to the issues set out above.

The information contained within this section of the guide is intended to be a summary of the relevant processes in the UK and should not be construed as advice or relied upon for the purposes of providing advice. Should any issue relevant to issues set out herein arise, please contact our office for further and better particulars relevant to the circumstances.

3 – FOREIGN INVESTMENT

The World Investment Report 2023 reported a decline in global foreign direct investment of 12 per cent in 2022.[41] Reasons cited by the United Nations for the decline include the war in Ukraine, high food and energy prices and debt pressures.[42]

The United States is the biggest trading partner of the UK, with a 17.6% share of total trade in 2023 according to the ONS. Germany, the Netherlands, France, China and Ireland are also significant partners.

TOP UK TRADING PARTNERS IN 2023 (EXPORTS PLUS IMPORTS OF GOODS AND SERVICES)

Rank	Partner Country	£ billion	% of total trade
1	United States	310.80	17.6
2	Germany	149.9	8.5
3	Netherlands	118.6	6.7
4	France	105.3	6.0
5	China	90.2	5.1
6	Ireland	89.3	5.1
7	Spain	64.1	3.6
8	Belgium	57.8	3.3
9	Italy	50.9	2.9
10	Switzerland	50.8	2.9
	EU	823.1	46.7
	Non-EU	939.4	53.3
	World	1,762.5	100.0

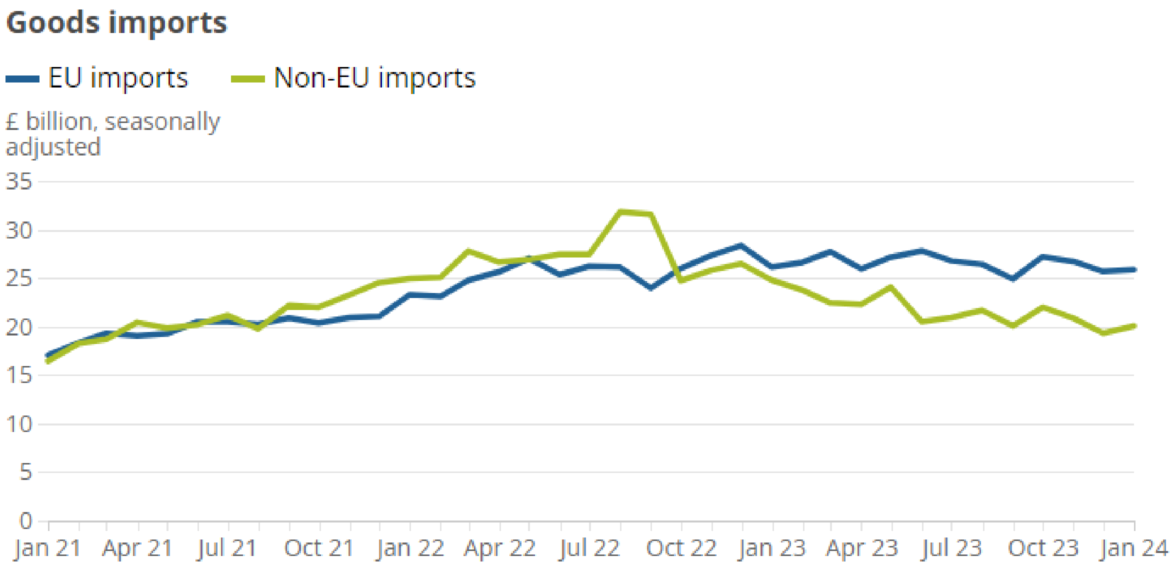
Source: ONS UK trade, quarterly trade in goods and services tables: October to December 2023[43]. Reproduced under the Open Government License v3.00

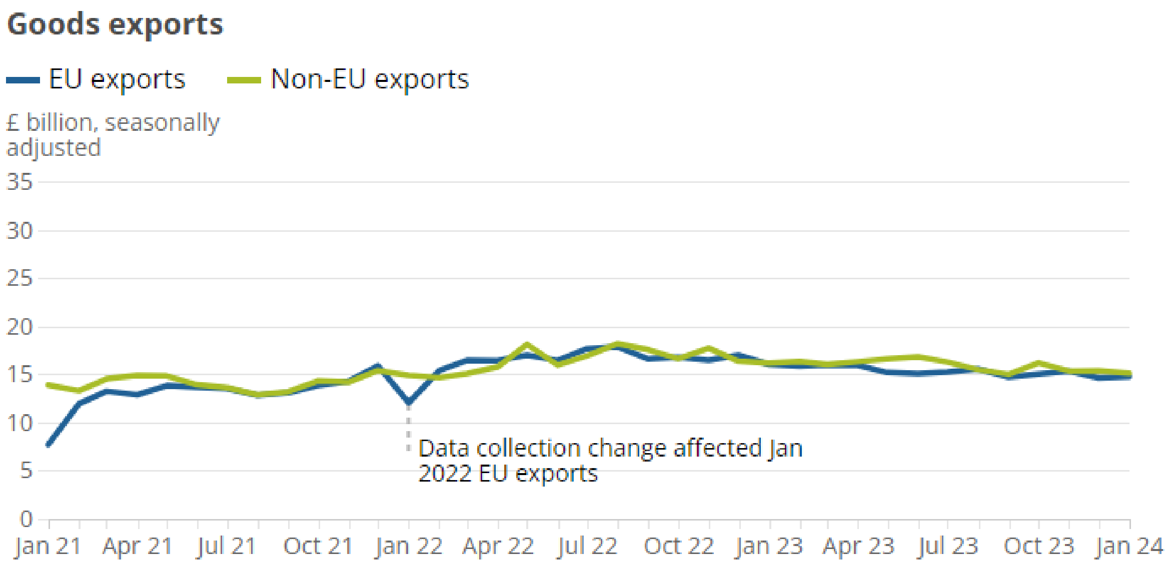
UK TRADE

The UK's new relationship with the EU, the impact of COVID-19, supply chain disruption and increased fuel prices as a result of the war in the Ukraine, and global recession have all caused higher levels of volatility in trade statistics. Another difficulty is changes to HMRC data collection between GB and EU for exports from January 2021 and for imports from January 2022[44]. This does make comparisons with earlier periods problematic.

[41] World Investment Report 2023: Overview, United Nations
[42] Ibid
[43] Included in Trade and Investment Core Statistics Book, Updated 17 May 2024, Department for Business and Trade
[44] UK trade in numbers (web version). Updated 19 August 2022. Department for International Trade.

EU and non-EU Goods imports and exports, excluding precious metals, current prices, seasonally adjusted, January 2021 to January 2024

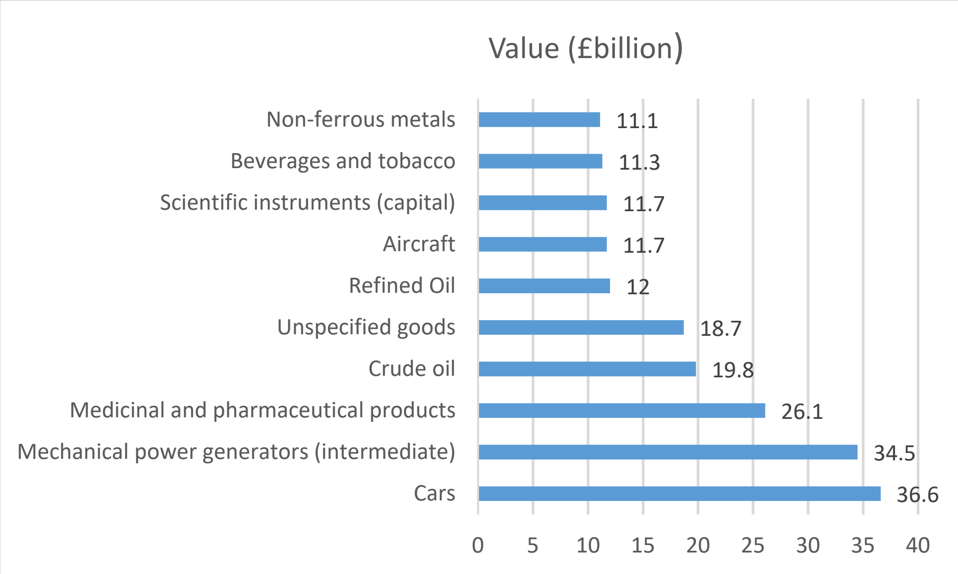




Source: UK trade statistics from the Office for National Statistics [45]

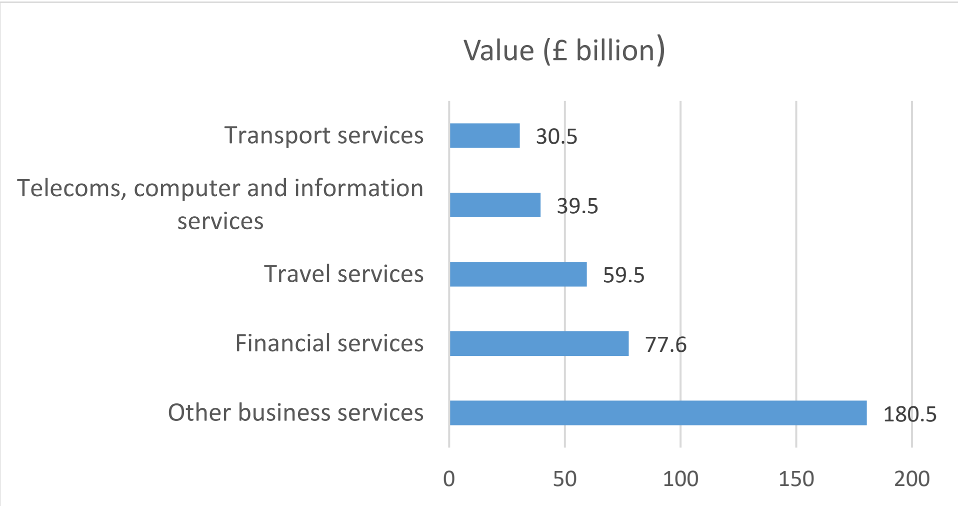
[45] UK trade: January 2024, ONS (Release date 13 March 2024). Contains public sector information licensed under the Open Government License v3.00

Top 10 goods exports 12 months to the end of December 2023[46]



Source: [ONS UK trade December 2023]

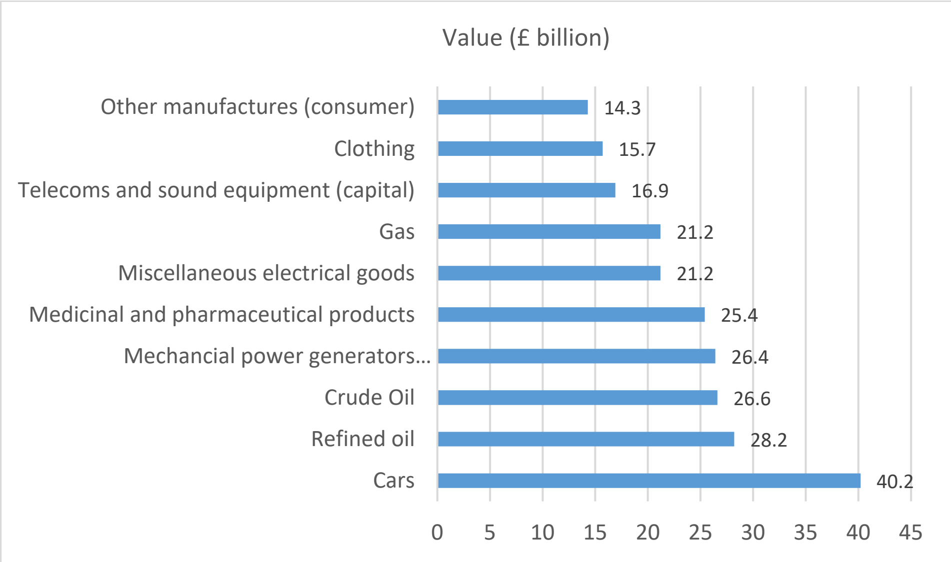
Top 5 UK services exports 4 quarters to the end of December 2023 [47]



Source: [ONS UK trade December 2023]

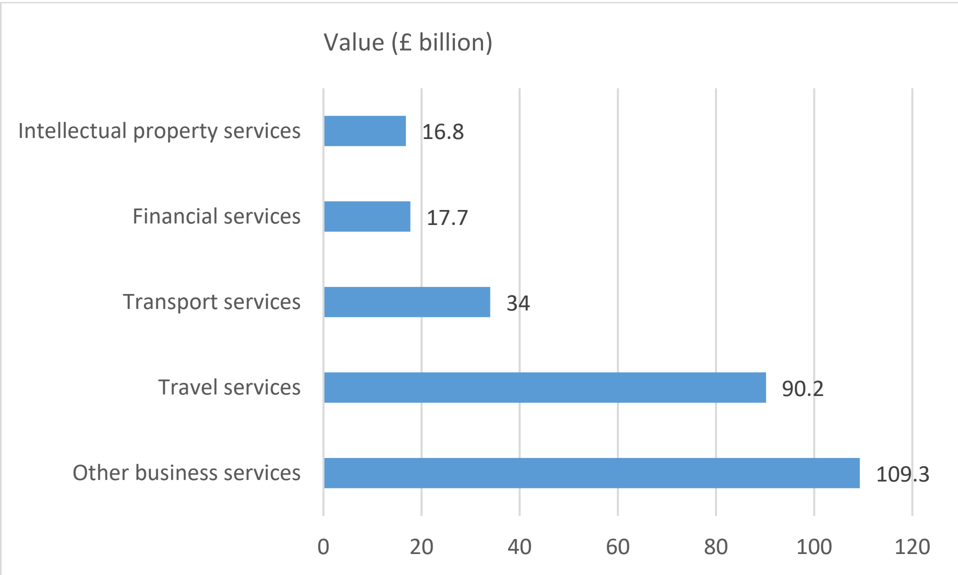
[46] UK trade in numbers (web version), Updated 22 February 2024, Department for Business and Trade
[47] ibid

Top 10 UK goods imports 12 months to the end of December 2023[48]



Source: ONS UK trade December 2023

Top 5 UK services imports 4 quarters to the end of December 2023[49]



[48] UK trade in numbers (web version), Updated 22 February 2024, Department for Business and Trade
[49] Ibid

4 – SETTING UP A BUSINESS

Several legal structures are available for carrying out business in the UK.

The most popular choice for foreign investors is to set up a private limited liability company either as a standalone company or as a subsidiary of a foreign-owned holding company.

The main advantage of a limited company is that it offers the shareholders limited liability. However, other options may suit individual circumstances and a summary of each is detailed below. The taxation treatment is explained in section six and accounting requirements in section seven.

PRIVATE LIMITED COMPANY

Most companies in the UK are registered as limited companies and regulated by the Companies Act 2006. A limited company is a legal entity in its own right and has a separate and independent legal personality, distinct from its directors and shareholders.

COMPANIES LIMITED BY SHARES

The most popular form of limited company is a company limited by shares which means that the shareholders' liability is limited to the amount outstanding (if any) on their shares in the company.

COMPANIES LIMITED BY GUARANTEE

A company can be limited by guarantee whereby every member of the company undertakes to contribute a fixed amount (such as £1) to the company's assets if it should be wound up, for payment of the company's debts and liabilities. These are mainly used for not-for-profit organisations such as charities, trade associations and clubs, and the company's Articles of Association (its constitution) would usually have a clause ensuring that any profits are retained to further the objects of the company.

A new limited company can be incorporated within a few hours, to meet the exact name and share capital requirements from the outset.

DIRECTORS' RESPONSIBILITIES

The Companies Act 2006 includes a statutory statement of the general duties of directors, replacing the previous regime of case law and statute. This is intended to make it easier for directors to understand what is expected of them. Directors must manage the company with reasonable care, skill and diligence and have a duty to act within their powers, to promote the success of the company and to exercise independent judgement. Additional duties include the duty to avoid conflicts of interest, not to accept benefits from third parties and to declare any interest in a proposed transaction or arrangement. This is particularly significant if the company has financial problems and may be insolvent. If a director fails in his duties, breaches the Companies Act or acts fraudulently, he may be fined, disqualified from acting as a director or even imprisoned. He may also be held personally liable for the company's debts.

REGISTRATION REQUIREMENTS FOR PRIVATE COMPANIES

In order to register a company, also known as 'incorporation', the following information must be provided on the Form IN01 – 'Application to Register a Company', available on the government website, to Companies House:

- A suitable company name which is not the same as or too similar to the name of an existing company and does not contain sensitive or offensive words, as this will not be accepted. The full name of a limited company must also end with the word 'Limited' or 'Ltd'. On formation and on annual statements Companies are required to confirm that their future activities will be lawful.

- Details of the registered office address of the company to where official correspondence will be sent. This is usually the address of the company's accountant, solicitor, or the trading address of the company. Following the enactment of Economic Crime and Corporate Transparency Act 2023 (the Act), Companies are required to ensure that the registered office address is an 'appropriate address' where documents can be delivered, acknowledged and will come to the attention of Company. A registered email address is also required on formation or when filing the annual confirmation statement. The email address will not be made public and can be a generic email address where notices from the Registrar can be expected to come to the attention of the Company.

- Details of at least one director (and a company secretary if desired), including personal details such as residential address, service address (this can be at the company's registered office address to prevent the director's residential address being made public), occupation, date of birth and nationality. Every company must have at least one director who is a 'natural person', which means that a private company is not permitted to have a sole corporate director (another company/legal entity). Regulations to limit the use of corporate directors, or only permit corporate directors who in turn only have natural persons as directors, are expected to be introduced but there is no time scale specified at the time of writing. A new website has been established by Companies House to assist with timescales and information on incoming changes: https://changestoukcompanylaw.campaign.gov.uk/. The Act also introduces Companies House reform, whereby, all directors and Persons of Significant Control will have to verify their details. It is anticipated that this will be by submission of their passport using a face recognition and scan facility or via a third party appointed agent, who must be supervised by HMRC for anti- money laundering purposes.

- Details of people with significant control over the company: this is in addition to the name of the registered shareholders and directors.

- Details of the company's shares and the rights attached to them.

The above must be accompanied by the memorandum and articles of association:

- Memorandum – this is a brief statement of the intention of the subscriber(s) to be incorporated. There must be at least one subscriber to the memorandum who agrees to take at least one share in the company.

- Articles – these are the internal rules of conduct of the company.

If all is in order, the registrar of companies will issue a certificate of incorporation confirming the company name, the date of incorporation and the registered number. A company does not legally exist until the certificate has been issued. A private company may commence business as soon as it has been incorporated.

REPORTING REQUIREMENTS

Incorporation brings various filing and reporting obligations.

STATUTORY BOOKS

In the first instance, a company must maintain statutory registers (or statutory books as they are known) containing the memorandum and articles of association, as well as other company information, including:

- The Register of Members,
- The Register of Directors and Secretaries,
- The Register of Persons with Significant Control,
- Minutes of General Meetings,
- Minutes of Directors Meetings and
- The Register of Written Resolutions.

A further change expected as part of the Companies House reform will be that the register of directors and Person's of Significant Control will be 'live' on Companies House records although the register of members will remain as it is currently, and will be held at the registered office of the Company.

The statutory books must be maintained in the UK and should be available for inspection at the registered office or, in some cases, at the Single Alternative Inspection Location (SAIL) address.

Any changes to the directors or secretary (or their personal details), to the registered office or any allotment of further shares, must be reported to the Registrar of Companies on the prescribed form.

Other instances where prescribed forms or copies of resolutions passed by the members must be filed with the Registrar of Companies include changes to the articles of association and the registration of mortgages and charges.

ANNUAL ACCOUNTS

Annual accounts must be prepared and filed for every financial year, regardless of whether or not a company is trading. The accounts filed at Companies House must be in accordance with the Companies Act 2006. Failure to deliver accounts on time is a criminal offence and the law imposes a civil penalty for late filing.

EXTERNAL AUDIT

An annual audit by external auditors of the accounting records of the business should be carried out if it is over the minimum size (see Appendix III).

CONFIRMATON STATEMENT

A confirmation statement includes details about the company, its officers and members. An annual confirmation statement must be completed each year, reflecting any changes and delivered to Companies House. If a company does not submit a confirmation statement, the Registrar may take steps to strike off the company.

TRADING DISCLOSURE REQUIREMENTS

The Companies Act requires a company to display its full registered name in all forms of business correspondence and documentation, whether in hard copy or electronic format, including:

- business letters, notices and other official publications;
- business emails;
- bills of exchange, promissory notes, endorsements and order forms;
- cheques purporting to be signed by or on behalf of the company;
- orders for money, goods or services purporting to be signed by or on behalf of the company;
- bills of parcels, invoices and other demands for payment, receipts and letters of credit;
- applications for licences to carry on a trade or activity; and
- websites (not necessarily on every page but it must be displayed so it can be easily read).

PUBLIC LIMITED COMPANY

In order to offer its shares to the public, a company must be a Public Limited Company ('plc'). A plc can also (but does not have to) list its shares on a stock market. If it is a listed company, it must, in addition, adhere to the rules of the stock market in which its shares are traded.

Public Limited Companies are regulated by the Companies Act 2006 (see Private Limited Company above) and the same registration and reporting requirements apply. Additionally, a plc must have a minimum of two directors, an appropriately qualified secretary and at least GBP 50,000 issued share capital (or the equivalent in another currency), a quarter of which must be paid up. The full name of a plc must end with 'Public Limited Company' or 'plc'. A plc is also obliged to hold an annual general meeting (AGM) of its shareholders each year. Unlike a private company, a public company cannot immediately commence business on the issue of the Certificate of Incorporation. The company must first apply for a trading certificate which confirms that the company complies with the capital requirements for public companies.

Each UK stock market has its own listing and reporting requirements, procedures and rules of conduct, which can be onerous and time-consuming. For shares to become listed on any of the stock markets, the company will need a team of advisers, including stockbrokers, solicitors and accountants to carry out the necessary procedures.

SOLE TRADER

An individual can be in business on his own account. This option is often used by craftsmen, professionals and people setting up a small business, because it involves minimal paperwork and formalities.

There are no audit requirements, but certain minimum records are required for personal tax, VAT and PAYE purposes, and the individual is liable for all the debts of the business. Any official paperwork, such as letters or invoices, must include the name of the owner of the business as well as any business name.

PARTNERSHIP

Defined by the Partnership Act 1890, a partnership does not exist as a separate legal entity. The partners in the business have joint and several liability for any liabilities of the business, so their personal property is at risk if the business faces large claims against it.

Profits from the business are taxed as the income of each partner. Certain minimum records must be kept for VAT and Pay As You Earn (PAYE) purposes. Usually, a partnership agreement is drawn up by lawyers which determines how the partnership is governed and how the profits are shared. This option is common for professional firms and is also widely used by small business start-ups.

LIMITED LIABILITY PARTNERSHIP (LLP)

An LLP exists in law as a body corporate, subject to aspects of company law, with the personal assets of LLP members being protected; it has a mix of corporate and partnership characteristics. There must be at least two members and they can be individuals, and or, corporate entities. Profits are taxed as if it were a partnership, provided it is carrying on a trade or profession. The business name must end with the letters LLP. The registration procedure and reporting requirements are similar to that of companies and an LLP is registered at Companies House.

An agreement is essential to formalize the relationship between members in respect of capital share, exit provisions, management and other important matters. There is no requirement to file the LLP agreement with the Registrar of Companies so it can remain confidential to the partners.

OTHER OPTIONS FOR TRADING IN THE UK

UK ESTABLISHMENT OF AN OVERSEAS COMPANY

Within one month of opening a UK establishment, an overseas company must deliver to Companies House a completed application form for the registration of an overseas company opening a UK establishment (Form OS IN01). This will need to contain details of the directors and company secretary, details of the UK establishment and the names and addresses of any permanent representatives of the company and/or a person resident in the UK authorised to accept notices on the company's behalf. The Form OS IN01 must be accompanied by certified copies (and certified translations if appropriate) of the constitutional documents and a copy of the latest disclosed accounts. The company must also notify the Registrar of Companies of any changes to the above information.

JOINT VENTURE

It is possible to set up a joint venture with an existing UK business by forming a business which is part-owned by them and part-owned by an overseas business. The exact arrangements can vary depending on circumstances, the balance of finance and/or practical involvement. Every case is different, so it is important to obtain professional advice to ensure that the two parties are clear about respective responsibilities and obligations, and that arrangements can be made if one party wishes to withdraw from the arrangement.

AGENTS

It may be preferable, certainly at an early stage of trading, to appoint an agent to act on behalf of the supplier business. This avoids having any UK corporate presence, but enables the supplying business, as a result of the agent's efforts, to sell its products or services in the UK. The agent may wish to negotiate an exclusive contract, which may or may not suit the supplier business.

Professional advice should be taken to ensure that the contract with the agent is lawful and unbiased and that payments are made in the most tax-efficient form.

FRANCHISES

Buying a franchise allows you to set up your business without starting from the very beginning. You buy a licence from an existing business in order to use their trade name, business name or product idea. This will involve paying ongoing fees or royalties on sales. In return, you receive support and advice from the franchisor.

REGISTRATION WITH AUTHORITIES – FOR ALL BUSINESSES

TAXATION

Businesses must register with the HM Revenue & Customs (HMRC) for PAYE (Pay As You Earn – Income Tax deducted from employees' wages) and National Insurance payments for employees, and for Corporation Tax for registered companies.

VAT (SALES TAX)

A business must register with HMRC for VAT if the taxable turnover of the business is more than GBP 90,000 in any 12-month period or if taxable turnover exceeding this level is expected in the next 30 days alone. A business can register for VAT on a voluntary basis if its taxable turnover is below this threshold where there is an intention to trade or if it has sales to non-UK customers that would otherwise be taxable in the UK. Registering for VAT can be advantageous for many types of business.

Non-resident businesses supplying goods or services in the UK and subject to UK VAT have a zero-registration threshold and must register for VAT immediately they commence trading. If the non-resident business sells goods to consumers, the goods are outside the UK at the time of sale, and the consignment value is less than £135, a mandatory VAT registration is required.

Thereafter, quarterly returns to declare VAT invoiced on sales and reclaim VAT paid out on expenditure must be submitted although some businesses may choose to file monthly or annual VAT returns subject to certain conditions. There are several simplified arrangements for smaller businesses.

There are three rates of VAT in the UK – 20%, 5% and 0%. Many types of business activities are exempt from VAT. It is important to use the correct VAT treatment, or both the supplier and customer can encounter problems.

Most businesses are able to reclaim VAT paid out on business expenditure, although there are many conditions and types of expenditure on which VAT cannot be reclaimed. Also, businesses that have both taxable and exempt income may not be able to reclaim all the VAT they incur on expenditure.

There are a number of special rules relating to online marketplaces, online sales direct to the public when the goods are outside the UK at the time of sale and digital services provided direct to a non-business customer.

The tax authorities level penalties and interest for any errors. These can be significant.

LICENCES

Depending on the nature of the business, it may require licences from local or central authorities or from providers of software etc. Trading licences are required for consumer credit, sale of alcohol and tobacco, gambling and other restricted activities.

DATA PROTECTION

Data protection requirements are covered by both the Data Protection Act 2018 and the UK GDPR (which incorporates into UK law the provisions of EU GDPR)[50]. Businesses need

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[50] Overview – Data Protection and the EU, ICO [accessed 30 May 2024]

to register with the Information Commissioner's Office to hold and process information on living individuals, including employees and customers.

INSURANCE

Compulsory cover is needed for employer's liability (personal injury and damage to personal property of employees). Any business vehicles must have motor insurance, and it is advisable to have insurance against public liability, property (fire and theft) and business interruption. In rented property, occupier's liability insurance may also be required.

COPYRIGHT, PATENTS AND ROYALTIES

The Intellectual Property Office is the UK government body which oversees all matters relating to intellectual property including the registration of copyrights, patents, designs and trademarks.

COLLECTIVE INVESTMENT SCHEMES

Special rules apply to collective investment schemes, details of which are covered at: https://www.gov.uk/money/business-tax-investment-schemes-collective-investment-schemes.

5 – LABOUR

EMPLOYMENT

Employment rules in the UK are designed to ensure that there is no discrimination or unfair treatment of employees and they can work in relative safety and comfort. Key pieces of legislation include:

- Employment Rights Act
- Equality Act
- Modern Slavery Act
- Anti-Bribery Act
- Public Interest Disclosure (Whistleblowing)

Since 2017, businesses with 250 or more employees are required to comply with regulations on gender pay gap reporting.

Employment law is a complex and fast-changing area and as a result, employers should be prepared to seek advice from a specialist lawyer to ensure they have adequate procedures and controls in place to comply with this area of the law.

Employees who claim unfair dismissal or discrimination can take their case to an employment tribunal which may order the employer to pay compensation if the case is proved. Where an employer is found to have discriminated against a member of staff, on the grounds of sex, race, gender reassignment, disability, sexual orientation, religion or religious belief, or age, they may face a potentially unlimited award of damages against them for both loss of earnings and injury to feelings. Damages for unfair dismissal, however, are based mainly on an employee's loss of earnings, which will be limited to £115,115 or 52 weeks gross salary - whichever is the lower.

RIGHT TO WORK IN THE UK

Employers are only able to employ individuals who have permission to live and work in the UK. Individuals fall into various different categories for immigration purposes depending upon their citizenship or nationality. Some individuals are automatically entitled to live and work in the UK, whereas others are required to seek permission to work.

Rules relating to the categories of individuals who require a visa or corporate sponsorship to work are complicated and advice should be sought before making an offer of employment to any individual where there is any doubt concerning their right to work in the UK. Companies now need to hold a sponsorship licence granted by the UK Border Agency before they can sponsor a non UK employee to work in the UK.

Generally, the following workers have the right to work in the UK without seeking additional permission to work:

- British and Irish citizens (conferred by birth, descent, naturalisation or registration)
- Commonwealth citizens with leave to remain in the UK on the basis of a grandparent born in the UK
- People with a right of abode or settled status in the UK
- People with exceptional or indefinite leave to remain in the UK for humanitarian reasons, or who have limited leave to remain on the same basis, provided this has not expired

- Spouses, dependants and unmarried partners (including same sex partners) of people in some of the above categories allowing them to work.

Employers can be fined if their employees do not have a valid UK work visa. Employers are required to make basic document checks on every worker they take on, before employment commences, in order to establish that they are not taking on an illegal worker. Employers should seek advice about which combinations of documents are acceptable because failure to demonstrate adequate steps have been taken, where the employment of illegal workers has ensued, can result in a fine of up to GBP 10,000 per worker or a criminal prosecution.

CONTRACTS OF EMPLOYMENT

From 6 April 2020, both workers and employees are entitled to receive written particulars from day one of their employment. Failure to do so can result in an award of two weeks wages (or four weeks' pay at the tribunal's discretion) being made by an employment tribunal. The statement of particulars needs to cover certain information including amongst other things remuneration, hours and place of work, holidays and notice.

There are statutory requirements covering many aspects of employment such as maximum working time, minimum hourly wage, maternity pay and leave, parental leave, sick pay, redundancy pay and others with which employers need to be familiar.

PERMANENT, TEMPORARY AND PART-TIME EMPLOYMENT

A permanent contract of employment will usually have a probationary period of three months (although this is not necessary) depending on the seniority of the post, with a minimum notice period. After the probationary period, the notice period for both employer and employee is usually lengthened. An employer is required to give one week's notice to employees with up to two years' continuous service, and thereafter, one week for each completed year of service up to a maximum of twelve weeks unless the provision in the statement of particulars is longer. The statutory minimum notice an employee must give to terminate their employment is one week in the absence of a contractual agreement.

Part-time workers must be given the same rights as full-time workers, but proportionate to their hours of work and length of service. In addition to this, with effect from 1 October 2011, temporary agency workers have the right to equal treatment in comparison with permanent workers or employees as regards certain basic working and employment conditions after completing a 12 week qualifying period in the same job role with the same hirer. The requirement is to afford the agency worker the same basic working and employment conditions as they would have received if they had been directly recruited by the hirer to that job role. The terms and conditions affected are pay, the duration of working time, night work, rest periods, rest breaks and annual leave.

Furthermore, from the first day of their assignment, agency workers are now entitled to the same access to certain collective facilities provided by the hirer (such as a canteen, childcare, car parking and transport facilities) and to the same information on job vacancies as comparable permanent workers or employees.

It is also possible to employ staff on a temporary, fixed-term contract. The Fixed Term Employees (Prevention of Less Favourable Treatment) Regulations 2002 and Part-Time Workers (Prevention of Less Favourable Treatment) Regulations 2000 (as amended) make it unlawful to treat temporary or part-time workers less favourably than full-time permanent staff.

GRIEVANCE AND DISCIPLINARY POLICY

Companies are required to act in a reasonable manner, good practice being to investigate the need for a hearing, to invite the employee to a meeting to discuss the issue and to allow the right of appeal against any disciplinary action. Workers have the right to be accompanied at any formal hearings.

When deciding whether an award is due to employees, employment tribunals are guided by the Advisory, Conciliation and Arbitration Service (ACAS) Code of Practice in determining whether employers have acted in a fair and reasonable manner. These tribunals have the authority to increase or decrease an award by 25% if either party fails to follow the Code.

WAGES – PAYROLL RESPONSIBILITIES

Employers must deduct Income Tax and National Insurance contributions (NICs) from the wages/salary of their employees according to the tax coding given to the individuals by HMRC. This is known as Pay As You Earn (PAYE). In addition, employers are required to pay employers' NICs. All the tax and NICs deductions and payments must be sent to HMRC promptly, and returns must be filed both monthly through online payroll reporting and annually stating total payments and the taxable value of any benefits in kind (see below).

In April 2024, the National Living Wage (NLW) was introduced for employees aged 21 and over. These rates are reviewed annually and changes implemented on 1 April each year (see Appendix IV).

Employers will need to automatically enrol all staff into a qualifying pension scheme, although there is an optional three-month postponement period. Staff may opt out, of their own volition, within a four week window if they wish their contributions to be refunded. Minimum employee and employer contributions are set.

Any data concerning payroll is classed as sensitive data under the General Data Protection Regulation (GDPR) and employers are required to take adequate steps to ensure that the data is secure.

The number of different taxes, benefits and other calculations can make payroll tasks time-consuming and complex for employers, but there are payroll service providers available who will contract to do these tasks for a fee.

BENEFITS IN KIND

Depending on the nature of the work and the availability of people with the necessary skills, employers may offer additional benefits in kind to their employees. These range from a subsidised canteen to a company car, pension contributions, health club membership, private medical insurance, share options and so on. For taxation purposes, the government calculates the cash equivalent value of these benefits and employees are taxed accordingly. Employers must ensure that annual returns are submitted which detail any benefits in kind.

REDUNDANCY, UNEMPLOYMENT, SOCIAL SERVICES

When there is a closure of the employer's business, an employee's place of work or a diminished need for employees, usually caused by a downturn in business or restructuring, employees can be made redundant. If an employee has been working for more than the minimum period (currently two years), he or she is legally entitled to a statutory redundancy payment, which is calculated according to age, length of service and salary, subject to a maximum of GBP 700.00 per week for each continuous year of service (up to the last 20 years of service).

There is also a strict obligation placed upon employers to consult with their workforce before implementing redundancies. Depending upon the number of redundancies, employers may be required to consult for up to 45 days and notify the Department for Business, Energy and Industrial Strategy (BEIS) of the impending redundancies.

INDUSTRIAL RELATIONS/TRADE UNIONS

Membership of trade unions has declined in recent years and scope for industrial action has also become more limited. However, every employee has the right to be a member of a trade union. Where an industry remains heavily unionised, trade unions are likely to be involved in pay negotiations, training needs and grievance and disciplinary proceedings, working closely with personnel/human resources staff.

HEALTH AND SAFETY

The Health & Safety Executive (HSE) requires all employers to ensure the health and safety of their employees. The HSE issues directives on all aspects of safety and can prosecute businesses which do not comply. HSE inspectors visit employers' premises to ensure compliance and they have the power to close a business if it is deemed dangerous.

Under the Corporate Manslaughter and Corporate Homicide Act 2007, companies and organisations can be found guilty of corporate manslaughter on the basis of gross health and safety management failings. The legislation focuses on the corporate liability of an organisation as a whole. There is no limit on the level of fine which a court can impose under the legislation, nor is it possible for employers to obtain insurance against a fine. Employers must therefore be satisfied that their health and safety management procedures are appropriate, effectively managed throughout the workplace and regularly reviewed.

ALTERNATIVES TO EMPLOYMENT

SUBCONTRACTORS AND OUTSOURCING

It is common in some industries (e.g. construction) for businesses to use a subcontractor (either a business or a self-employed person) instead of employing someone with particular skills for a specific task. Many businesses and public bodies also outsource some non-core activities of their business (such as catering, facilities management, security and accounts) to external suppliers in return for a fixed price. In both cases, the business has a contract with another business (or self-employed person) for the supply of a service or component product, rather than having to employ people directly. This can reduce costs and administrative time and provide higher quality skills for specific tasks, whilst at the same time relieving the business of the liabilities and responsibilities related to being an employer.

SELF-EMPLOYMENT

It is possible to set up a business as a self-employed person. HMRC use different methods for assessing and collecting Income Tax and National Insurance, both of which are generally lower than for someone who is employed.

Disputes between businesses and individuals over employee status can be relatively common given the rights afforded to employees as opposed to workers (i.e. non-employees). Employment tribunals are required to apply a series of tests in order to establish whether a person has employee status. When seeking to engage individuals on a self-employed basis, it is advisable to obtain advice from a solicitor specialising in employment law who can assist you in establishing whether an individual would be treated as an employee by an employment tribunal. However, it should be noted that tax treatment as a self-employed person for taxation purposes is not decided upon on exactly the same basis as for employment rights and it is possible for a worker to be treated as self-employed for tax purposes, yet still have some employment rights as a worker. Again, specialist advice should be obtained.

Special regulations can apply where an individual uses a company structure to sell his/her services to a client (often referred to as off-payroll working or IR35), requiring an assessment of whether a contract is one of employment or self-employment. If the contract is one of employment, income receivable by the company is taxed as if it was salary with the consequential effect upon Income Tax, and employers and employee NIC rates applying. Managed service companies are subject to similar regulations. Otherwise, company income is taxed under corporation tax rules, leaving the owners of the company to decide how to reward themselves in the most tax efficient way.

6 – TAXATION

TAX AUTHORITIES AND RESPONSIBILITY

The administration and collection of taxes within the UK is undertaken by HM Revenue & Customs (HMRC).

HMRC are responsible for administering and collecting all national taxes which include Corporation Tax, Diverted Profits Tax, Income tax, National Insurance, Capital Gains Tax, VAT, Annual Tax on Enveloped Dwellings (ATED), Stamp Duty and Stamp Duty Land Tax. Land and Buildings Transaction Tax applies instead of the latter in Scotland and is administered by Revenue Scotland. From 6 April 2016, a Scottish rate of Income Tax was introduced and is administered by Revenue Scotland. A lower corporation tax rate was also introduced in Northern Ireland in April 2018.

In addition to the above taxes, which are collected on a national basis, local town, city or county authorities are able to collect Council Tax, which is levied by reference to the value of business or residential property rather than profits or income.

BASIS OF TAXATION

Liability to taxation depends upon the residency of the company, individual or trust, and the location of assets and source of income. Companies and individuals who are residents in the UK typically pay tax on their worldwide income and gains, whereas non-residents are subject to tax only on UK-source income.

An individual who is resident but not domiciled in the UK may opt to be taxed on 'the remittance basis' under which foreign income is taxed only if brought to the UK instead of paying tax on the arising basis. There is generally a cost to claiming the remittance basis in terms of the loss of tax-free allowances and exemptions and, for longer-term residents, an annual remittance basis charge of GBP 30,000 or GBP 60,000 depending on the length of their UK residence. Where individuals have been resident for 15 years or more, then they will be deemed domiciled in the UK and all further tax benefits will then cease.

Where foreign income of UK residents is taxable, a credit for foreign tax paid may be given in accordance with double tax arrangements.

In his Spring Budget in March 2024, the Chancellor announced the abolition of the non-dom regime, to be replaced with a new residence-based regime. If the new rules are implemented, the existing non-dom regime will remain in place until April 2025, with a new four-year residence-based regime applying from 6 April 2025.

A change in government on 4 July 2024 may bring further changes to these rules.

BUSINESS TAXES

RESIDENT COMPANIES

There are two tests that need to be considered when determining whether a company is tax resident in the UK. Firstly, any company which is incorporated in the UK is automatically considered to be UK tax resident.

In addition to this, any company, regardless of the location of its incorporation, will be considered to be UK tax resident if it is managed and controlled in the UK.

It is therefore possible for a company to be UK resident by virtue of its management and control, but also resident in an overseas jurisdiction by virtue of their tax law. The residence status of these companies can be resolved with reference to the relevant tax treaty, if one exists.

Companies incorporated outside the UK but not managed and controlled in the UK, will only have a liability to corporation tax based on the profits of their UK branch or permanent establishment.

CORPORATION TAX

Companies' resident in the UK pay Corporation Tax on their worldwide trading profits, income and capital gains (see Appendix II for current rate of Corporation Tax).

The rate of Corporation Tax was 19% up until 1 April 2023 when it increased to 25% for companies with profits over £250,000. Companies with a profit of £50,000 or less will continue to be taxed at 19% whilst companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective rate.

These limits will be proportionately reduced for short accounting periods and where there are associated companies. The 51% group company test will be repealed and replaced by associated company rules when determining whether a company is large or very large for quarterly instalment calculations.

Large companies (usually profits greater than £1.5m) are obliged to pay tax in four instalments. Based on a 12-month accounting period, the first payment is due on the 14th day of the seventh month of their accounting period and then quarterly thereafter, with the final payment made on the 14th day of the sixteenth month following the start of the accounting period. Interest is chargeable in the event of tax payments or instalments being late and is repayable if payments are excessive. Companies who are not defined as large normally pay their Corporation Tax liability nine months and one day after the end of the accounting period. Accelerated payment rates now apply to very large companies (where taxable profits exceed £20m) by imposing instalments in months three, six, nine and 12.

A company has 12 months from the end of their accounting period to file their tax return. Generally, HMRC then has 12 months to open an enquiry into the return. Penalties are levied for both late filing and for filing an incorrect return.

Loans to shareholders or other participators are likely to incur a special tax (32.5%), which is payable nine months after the accounting period in which the loan is provided. However, once the loan is repaid or forgiven, the tax should become repayable to the company nine months after the relevant period.

DIVIDEND EXEMPTION

Subject to certain anti-avoidance rules, dividends received from both UK and overseas subsidiaries (located in most treaty countries) will not normally be taxed in the UK. This is one of the measures which make the UK an attractive location for a holding company.

LOSSES

In general, trading losses may be carried back for 12 months or carried forward indefinitely, subject to changes in ownership and the nature or conduct of the trade. Current year losses may also be surrendered between group members to offset against their profits for the same period. Similar relief is available for excess interest costs, but excess management expenses of investment companies may not be carried back.

Reforms to loss relief, allowing losses brought forward to be offset against other income, and a restriction to 50% offset where profits are above £5m, took effect from April 2017. See below for more information on capital losses.

CAPITAL ALLOWANCES

Book depreciation or amortisation of tangible assets is not allowable for tax purposes; instead, relief by way of capital allowances is often available. Purchases of plant and machinery are eligible for writing down allowances (WDA), typically 18% on the reducing balance. Integral assets (IA) within a commercial building (e.g. lighting, heating, ventilation etc.) and long life assets only qualify for 6% WDA per annum. However, a 100% annual investment allowance (AIA) is available for the first GBP £1,000,000 of expenditure on any plant and machinery or IA.

A structure and buildings allowance (SBA) of 3% is available on qualifying costs for new non-residential structures and buildings, business constructing or renovating structures from 29 October 2018.

Between 1 April 2021 and 31 March 2023, certain companies investing in qualifying new plant and machinery benefited from the new first year capital allowances. A company was allowed to claim a 130% super-deduction capital allowance on most new plant and machinery investments that ordinarily qualified for 18% main rate writing down allowances, and a first year allowance of 50% on most new plant and machinery investments that ordinarily qualify for 6% special rate writing down allowances.

From 1 April 2023 until 31 March 2026, companies can claim a 100% first year allowance for main rate expenditure known as full expensing. Companies will continue to be able to claim the 50% first year allowance for special rate expenditure.

This was originally announced as a temporary measure but following the Spring Budget 2024 the government has decided to make this policy permanent. In addition to this, there is an intention for full expensing to also apply to leased assets where the lessor is treated as the owner of the asset for capital allowance purposes.

An initial allowance of 100% is available for certain types of energy efficient expenditure or on cars with very low CO_2 emissions. By contrast, assets leased abroad are only eligible for 8% WDA.

A 100% Enhanced Capital Allowance (ECA) will be available to companies for qualifying expenditure on plant and machinery for use within Freeport sites. The plant and machinery must be new or unused and be for the purpose of a qualifying activity carried out within a Freeport between 2021 and September 2026. The allowance will be available on the qualifying expenditure in the tax year when incurred but could be clawed back if within five years of the acquisition/usage it is used outside of the Freeport site. In addition to the ECA, a 10% rate of structures and buildings allowance will be available for business constructions or renovating structures and buildings used for non- residential use.

INTANGIBLE FIXED ASSETS

Relief is available for expenditure incurred in the creation, acquisition or enhancement of intangible assets (typically goodwill, patents, trademarks, copyrights and the like) based on the profit and loss account charge. Conversely, credits to the profit and loss account and profits on disposal will be taxable as income. Assets created or acquired before 1 April 2002 or from a connected party other than a group company will remain chargeable as capital gains and so are not eligible for the above relief. Major restrictions apply to goodwill and customer related intangible assets acquired on or after 8 July 2015.

RESTRICTION FOR INTEREST DEDUCTIONS

The Worldwide Debt Cap (WDC) regime, which restricted UK interest relief where UK borrowing is considered excessive to a company's worldwide group, has been replaced by a modified interest relief restriction with effect from 1 April 2017. From then on tax relief is limited to 30% of 'tax-EBITDA' (taxable profits less interest, tax depreciation and amortisation and all losses but after adding back chargeable gains). A de minimis allowance of £2m will exclude a large number of companies from this restriction.

The UK also has both thin capitalisation rules which may restrict the extent to which interest paid to connected parties will qualify for a tax deduction and the normal arm's length interest rate restrictions.

HYBRID MISMATCH

Hybrid mismatch rules applied from 1 January 2017 to deny a tax deduction in the UK where there is a deduction available in another country, or where the corresponding receipt is not treated as taxable income. In addition, the rules will ensure that income is taxable in the UK where a deduction arising from a hybrid arrangement has not been denied in another country. New legislation has been introduced to ensure that the regime operates proportionately and as intended; this has included an amendment to the definition of dual inclusion income to reduce the number of occasions where the anti-avoidance rules will apply. A company is required to make disclosures in the tax return if it is a hybrid entity and any anti-hybrid adjustments made in the tax return.

DIVERTED PROFITS TAX

From April 2015 a company can be charged to a separate tax, 31%, which is not covered by the UK's double tax treaties. This applies if contrived arrangements have avoided UK tax by avoiding a UK permanent establishment or certain other arrangements between connected parties.

GENERAL ANTI-ABUSE RULE (GAAR)

In addition to extensive targeted anti-avoidance legislation, the UK operates a GAAR for most taxes, excluding VAT. The GAAR seeks to adjust the results which fail the so called 'double reasonableness' test as being avoidance through abusive use of tax rules. The 'double reasonableness' test attempts to restrict the use of this by deeming that arrangements are abusive if the entering into them cannot reasonably be regarded as a reasonable course of action.

GROUPS OF COMPANIES – CAPITAL GAINS

Special arrangements exist for a group of UK companies to elect for the gain or loss realised on the disposal of a capital asset to be taken by another group member, thereby enabling them to mitigate tax. This is, in effect, a form of group relief for capital losses, but pre-acquisition losses or gains of companies joining the group are ring-fenced to prevent abuse.

Disposals of substantial shareholdings in trading subsidiaries may be exempt if the shareholder continues to be a parent of a trading company, or a trader in its own right immediately after the disposal. The definition of a substantial shareholding for this exemption to apply is a holding of no less than 10%. The condition requiring the investor to still be trading after the disposal is abolished for disposals after 1 April 2017.

This exemption, coupled with the dividend exemption referred to previously, have combined to make the UK an attractive jurisdiction to locate a holding company.

CAPITAL GAINS AND LOSSES

Normally companies are chargeable for Corporation Tax (see Appendix II) on the excess of the sale proceeds or disposal value for chargeable assets over their cost, after taking into account indexation relief, which is based on published rates linked to inflation over the period of ownership. Indexation allowance was frozen with effect from 1 January 2018 – so that there will be no further relief for the gains attributable to inflation. Losses arising from the disposal of assets in the same period or losses brought forward may be offset against the gain. Since 1 April 2020, capital losses carried forward can only be used to offset 50% of any net capital gain subject to the annual £5m deductions allowance.

GROUPS OF COMPANIES – OVERSEAS BRANCH

Until recently, companies with an overseas branch of a UK company would be liable to taxation in the UK with a credit provided for any foreign tax incurred. In practice, this meant that profits in branches with a lower tax rate than the UK would incur additional tax in the UK.

A foreign branch exemption has changed this, as companies can now opt out of having the profits of their overseas branches taxed in the UK. The effect of opting into this legislation restricts the losses of overseas branches being utilised against any profits arising in the UK.

GROUPS OF COMPANIES – CONTROLLED FOREIGN COMPANY RULES

A Controlled Foreign Company (CFC) is a non-resident company controlled by UK resident persons. Any UK resident company may be assessable on the CFC profits if it holds a 25% or more interest in the CFC. However, if one of the following statutory exemptions applies to the CFC then no assessment can occur:

- Temporary period – normally up to 12 months
- Excluded territories - typically treaty countries
- Low profits – less than £500K trading or £50k otherwise
- Low profit – less than 10% of relevant operating expenditure
- Local tax – at least 75% of corresponding UK tax.

TAXATION OF BRANCHES OF FOREIGN COMPANIES

UK profits of a branch or other permanent establishment of a non-UK resident company are normally subject to corporation tax in the same way as a UK company. Allocated head office expenses need to be arm’s length and justified in the same way as other expenditure with connected parties. This is subject to hybrid mismatch rules. Interest on debt due to the head office may not be allowed. Gains realised on assets used in the UK trade are also chargeable.

Special relief is available for the conversion of the branch into a UK resident company, although relief for losses carried forward may be restricted where the head office has also obtained relief for the loss.

SPECIAL RULES – OIL AND GAS ACTIVITIES

Companies undertaking a petroliferous trade in either the UK or in UK territorial waters are subject to an additional tax regime, whereby profits arising from exploration are isolated from other profits such as refining and marketing. The key effect is that losses from other trades cannot be used against these ring-fenced profits.

This regime imposes a supplementary tax on UK profits. With effect from 1 January 2016, ring-fenced profits are taxed at a main rate of 30% and a supplementary charge of 10%.

The Energy (Oil & Gas) Profits Levy announced in May 2022 is a new and temporary tax levy on ring fenced profits on oil and gas companies. Originally introduced at a rate of 25%, this measure has since been increased to 35% and the time extended that the levy applies to 31 March 2029. This measure also reduces the investment allowance from 80% to 29%. However, the investment allowance will remain at 80% for investment expenditure on upstream decarbonisation. This change in relation to the treatment of upstream decarbonisation investment expenditure will be legislated for in due course.

The government announced the Energy Security Investment Mechanism ("ESIM") for the early termination of the EPL before 31 March 2029 if oil and gas prices were to return to historically normal levels. Under the ESIM, the tax rate applicable to oil and gas companies will reduce to 40% from 75% if for two consecutive quarters, both the average oil and gas prices fall to, or below $71.40 per barrel for oil and £0.54 per therm of gas. These thresholds will be adjusted for annually based on the Consumer Prices Index figure. This is intended to give the oil and gas sector certainty to raise capital and invest in new and existing projects. The ESIM legislation will take effect following Royal Assent.

CREATIVE INDUSTRY TAX RELIEFS

Films which meet the qualifying criteria for an independent film will be eligible for a higher rate of expenditure credit on their qualifying expenditure. This will apply from April 2025 to visual effect costs for film and high-end TV. They will receive an increased tax credit rate of 39% (up from 34%) under the Audio-Visual Expenditure Credit (AVEC) provisions, as well as the removal of the 80% cap on qualifying expenditure. A 40% relief from business rates will be introduced for eligible film studios in England until 2034.

RESEARCH AND DEVELOPMENT

Another measure making the UK a favourable tax territory for companies is the enhanced additional deduction available in respect of a company's expenditure on research and development expenditure.

Previously there have been two schemes of R&D relief available for SMEs and large companies, and after a period of consultation, the Government announced in the Autumn Statement 2023, that a new merged scheme would replace the two existing R&D schemes. From 1 April 2024, both SMEs and large companies are required to claim under the new merged scheme. The merged scheme is operated in a similar way to the previous RDEC scheme for large companies. The new scheme enables all companies who incur qualifying R&D expenditure to claim an 'above the line' credit of 20%, which represents a net cash saving of 15%.

For loss making companies, and companies paying corporation tax at small profits rates (profits chargeable to corporation tax < £50,000 excluding any RDEC claimed) the tax credit obtained is calculated at 19% as opposed to 25% i.e. the small profits rate of tax.

The Government is aware that loss-making companies would be significantly impacted by the new merged scheme, and as such they introduced the Enhanced Research and Development intensive support. If a company is deemed to be R&D intensive, this would allow loss making companies to continue to claim at a rate of 186% as within the previous SME scheme, and if relevant claim a payable tax credit of 14.5% of the surrenderable loss as opposed to 10%.

A company meets the intensity condition (for accounting periods beginning on or after 1 April 2024), if its relevant R&D expenditure is at least 30% of its total relevant expenditure including that of any connected companies. Total relevant expenditure includes the expenditure brought into accounts under GAAP in calculating the profits of a trade i.e. any expenditure that feeds into the profit before tax in a company's P&L account or income statement. It does not include any expenditure which consists of a payment, or other transfer of value, to connected companies.

The new merged scheme only relates to accounting periods beginning on or after 1 April 2024, so accounting periods commencing prior to this date should still claim using the SME or RDEC schemes.

EXISTING SCHEMES

Historically, the enhanced rate of relief for SMEs was 230%, however there were changes introduced from 1 April 2023 for companies claiming SME relief.

The rate was reduced to 186% of the cost against a company's profits. If losses are incurred, a company was previously able to claim a repayable credit of 14.5% up to 31 March 2023. However, this rate was reduced to 10% from 1 April 2023.From 1 April 2023 large companies can claim an 'above the line' credit of 20% (previously 13%). This is the rate after corporation tax is deducted at the new 25% rate, which also became effective on 1 April 2023.

From 1 April 2023 the R&D tax reliefs has been reformed to include all cloud computing costs associated with R&D including storage. Companies are also now able to claim qualifying expenditure which is related to pure mathematics. Pure mathematics involves the exploration of new mathematical concepts, the development of new theories and techniques and the discovery of new mathematical relationships and patterns. This can involve the development of new mathematical models, the study of mathematical structures and symmetries, and the exploration of the foundations of mathematics itself.

R&D activity will have to be physically located in the UK for the costs to be included in R&D tax relief claims. UK companies who currently claim R&D costs paid to overseas group companies or third parties may no longer be able to include these costs in their claims.

The government recognises that there are some cases where it is necessary for the R&D to take place overseas. The government will, therefore, legislate so that expenditure on overseas R&D activities can still qualify where there are material factors such as geography, environment, population or other conditions that may not be present in the UK and are required for the research or there are regulatory/other legal requirements that activities must take place outside of the UK e.g., deep sea ocean projects or clinical trials.

PAYE AND NATIONAL INSURANCE RESTRICTION

For accounting periods commencing on or after 1 April 2021 the credit claimed is limited to £20,000 plus three times the company's relevant expenditure on workers, being the company's own PAYE and NIC liabilities for the period plus some PAYE and NIC liabilities of any connected persons doing subcontracted R&D work for the company.

There is an exemption to the cap if the employees are creating, preparing to create or managing Intellectual Property and less than 15% of its R&D qualifying expenditure is spent with connected persons.

Where certain capital expenditure is incurred on a qualifying project(s) then Research and Development Allowances may also apply at 100%.

This reform will support sectors where the UK has a comparative advantage such as Artificial Intelligence, quantum computing and robotics while also supporting strong sectors such as manufacturing and design.

ADMINISTRATION

For accounting periods beginning on or after 1 April 2023, companies will need to notify HMRC if they plan to make an R&D claim if the following applies:

- They are claiming for the first time.
- They have claimed for the previous tax year but did not submit that claim until after the last date of the claim notification period (the claim notification period ends 6 months after the end of the period of account).
- The last claim was made more than 3 years before the last date of the claim notification period.

The latest date that the claim notification form needs to be submitted is 6 months after the end of the period of account that the claim relates to. If the notification is not submitted by this deadline, the claim may not be valid.

In addition to this, from 1 August 2023, companies must submit an additional information form to support the R&D claim. This includes company details as well as information relating to the qualifying expenditure and the project details.

PARTNERSHIPS

A partnership will be resident in the UK if most of the individuals or companies which comprise the firm are resident here. However, such entities are not taxed as such, but merely have to report the profits and income derived by their members. Each member is taxed on their share, together with their non-partnership income or gains. Thus, a non-resident member of a resident partnership is taxable on their share of the profits arising in the UK.

LIMITED LIABILITY PARTNERSHIP (LLP)

Strictly speaking, this is an incorporated body registered at Companies House. However, where it conducts its business with a view to a profit, it will be treated as a look-through for tax purposes. Thus, the same concepts as for a partnership (see above) will apply in taxing the profits or gains of the members. Where the LLP is not conducting business with a view to profit (e.g., it is in the process of being wound up), then it will be treated as a limited company and any income will be chargeable for Corporation Tax.

Members of an LLP need to pass at least one test relating to profit share, capital, or control, otherwise they will be treated as an employee rather than a partner for tax purposes. Where the LLP has both individual and company members, the profits allocated to the company member may be attributed to an associated individual and taxed accordingly.

NATIONAL INSURANCE CONTRIBUTIONS (NICS)

Sole traders and partners (self-employed individuals) are required to register their business activity and pay National Insurance contributions based on their profits (see appendix II). This is now collected through the tax self-assessment.

In addition to collecting employees' Income Tax and NICs by withholding the relevant amount from their wages or salary payments, an employer has to bear the cost of a further employers' NIC (see appendix II) on both remuneration and benefits in kind provided to employees. The collection and remittance of these taxes by the employer is done under a system known as Pay As You Earn (PAYE). Favourably reduced rates apply for apprentices as well as those under 21 and most employers will be eligible for an NIC rebate which allows employers to reduce their NIC liability by up to the annual allowance amount, £5,000 for 2024-25. This amount is set against employers annual Class 1 NIC (available where the employer's NIC liability for the previous tax year was less than £100,000).

AUTO-ENROLMENT

A workplace pensions regime applies to employers who do not provide a qualifying pension scheme. All eligible jobholders will need to be automatically enrolled into a pension scheme with contribution rates of up to 8% (including at least 3% from the employee).

UK REAL ESTATE

Resident individuals' or companies' rental income from UK property is not subject to withholding tax, but the surplus is chargeable at their marginal rate of tax. They are also chargeable upon the gain realised on the disposal of UK property. Non-UK resident individuals who receive income from letting out UK property are subject to the provisions of the Non-resident Landlord Scheme (NRLS). The NRLS requires Income Tax at basic rate (currently at 20%) to be withheld on the rent, either by the tenant or the letting agent as appropriate. However, the landlord can receive the rental gross (without the deduction of tax) if they receive permission from HMRC. HMRC will normally grant permission for this provided the landlord satisfies the relevant conditions. Where gross status is granted, the NRL will need to complete and submit annual self-assessment tax returns and ensure that its tax liabilities are settled on time under the self-assessment regime.

Companies owning residential property used by connected parties are subject to an annual tax on enveloped dwellings (ATED) if the value of the property is above £500k. Certain companies can claim a relief from paying ATED, but nevertheless need to file the claim by the same deadline with the risk of penalties on a daily basis notwithstanding to ATED if payable.

Both non-resident individuals and companies owning UK residential property, whether occupied by connected parties or otherwise, will be taxable upon the relevant gain realised on disposal. These rules also applied to non-residential property from 6 April 2019, with gains accrued after this date being brought into charge.

From 6 April 2020, non-resident landlord companies that carry on a UK property business or have UK property income are being charged to Corporation Tax rather than Income Tax. They are being assessed using the Corporation Tax rules including the corporate interest restriction rules on the deductibility of financing costs, hybrid mismatch rules, use of losses etc. and will be required to register, prepare and file Corporation Tax returns and accounts annually.

Effective from 1 August 2022, overseas entities transacting with property or land in the UK must now register with Companies House and identify their beneficial owners. These new regulations applied retrospectively to owner entities who bought property or land on or after 1 January 1999 in England and Wales and 8 December 2014 in Scotland.

REPATRIATION OF PROFITS

Pre-tax profits may be repatriated by companies in the form of tax-deductible interest, rent, royalties or management charges, provided the cost can be justified as being arm's length. However, the first three items may be subject to withholding taxes, except where clearances are obtained in accordance with a relevant double tax treaty.

The application of withholding taxes to interest or royalties is at 20%, however royalties may now be self-assessed by the UK payer, but the liability remains due if the overseas entity was not eligible for relief. Excessive payments may be treated as both disallowable for Corporation Tax purposes and also as a distribution for double tax treaty or income purposes.

Post-tax profits may be distributed in the form of dividends to the overseas shareholder without a further tax charge or withholding in the UK and the recipient may be entitled to a repayable tax credit under certain treaties.

An extended form of withholding tax, the Offshore Receipts from Intellectual Property (ORIP) tax, was introduced in April 2019 which applies to income arising from UK customers in connection with intellectual property located in low tax jurisdictions where income will be subject to no or low tax. Tax arises at a rate of 20% based on sales, not profits, and applies to groups achieving total revenue of £10 million or more.

DOUBLE TAX TREATIES

The UK has entered into more double tax treaties than any other country in the world. These double tax treaties cover such matters as residence status, permanent establishments, business profits, income from land and property, dividends, royalties and interest, personal direct and indirect income and capital gains. These agreements enhance the already favourable UK tax regime. HMRC maintains details of the UK's Tax Treaties on gov.uk.

TRANSFER PRICING

The UK operates a universal system of transfer pricing in accordance with the Organisation for Economic Co-operation and Development (OECD) guidelines so that all business transactions between connected parties need to be at arm's length prices, not just those with persons abroad. It is the company's responsibility to ensure that these rules are adhered to and that records are maintained evidencing and justifying the position taken.

There are potential exemptions for smaller and medium sized groups where they do not employ more than 250 employees and their group annual turnover/gross assets do not exceed EUR 50m/EUR 43m respectively. However, in practice these exemptions are extremely limited.

Since 1 April 2023, companies with group consolidated revenue exceeding €750m are legally required to maintain a master file which sets out the group's business, nature of global operations and overall transfer pricing policies and its global allocation of income and expenditure activity. As well as local country files which incorporate details of material intragroup transactions for the local taxpayer for the year and supporting pricing analysis for each entity.

PERSONAL TAXES

RESIDENT/NON-RESIDENT STATUS

Since 6 April 2013, The UK has a statutory test for tax residence. To determine whether a person has sufficient ties to be regarded as UK resident for the relevant tax year, a number of factors are considered in conjunction with the number of days a person spends in the UK.

Someone who spends 183 days or more in the UK in a tax year will be automatically treated as tax resident.

NON-RESIDENTS OWNING UK PROPERTY

Special tax regimes apply to non-resident individuals, trusts and companies that own UK property (residential or commercial). These have been subject to significant change over recent years, with further changes since April 2019. Advice should always be taken in respect of ownership structures and the tax implications.

DOMICILE

Domicile is a legal status that the UK applies in determining liability to certain taxes. An individual acquires a domicile of origin when they are born, usually the domicile of their father. This can be displaced by residing in another country with an intention to stay permanently or indefinitely. There are advantages to retaining a foreign domicile even if an individual becomes a long-term UK resident.

INCOME TAX

Income Tax and National Insurance contribution (NICs) rates, and reliefs applicable to individuals, are set out in Appendix II. Salary (including benefits in kind), trading profits, dividends, investment and property income are subject to Income Tax at various rates, based on the income arising in the fiscal year ending 5 April. Employment taxes are collected at the time of payment. Credit will normally be given for withholding taxes suffered in respect of overseas income. UK property income paid to non-residents may be subject to basic rate withholding tax, currently at the rate of 20%, (unless an application is made with HMRC) under the non-resident landlord scheme for rents to be paid gross.

Higher rate tax on investment income and tax on profits of self-employment are normally payable by instalments due on 31 January in the fiscal year and the following 31 July. These instalments are based on the liability of the previous tax year and calculated at 50% each, with any outstanding balance of Income Tax due being payable on the following 31 January, together with any Capital Gains Tax due for that year. Instalments may be reduced or overpayments claimed as soon as the claim is processed and agreed with HMRC.

BENEFITS IN KIND

The provision by an employer to an employee (or their relative) of an asset (e.g. accommodation, furniture or a car) or other benefits (e.g. entertainment, domestic or other services, medical insurance, interest free or low interest loans) are taxable on the employee and give rise to employers' NICs. Nevertheless, such benefits continue to play a significant role in attracting and retaining key employees.

CAPITAL GAINS TAX

Capital gains realised by individuals (see Appendix II) are subject to tax at a rate of either 10% or 20% (18% or 28% for residential property unless exempt as the individual’s principal private residence and carried interest). Gains are taxed after all reliefs and annual exempt amounts.

Provided the various conditions are met, Business Asset Disposal Relief, formerly known as Entrepreneurs' Relief (ER), allows up to a lifetime limit of £1million of gains on qualifying business disposals to be taxed at 10% and Investors' Relief allows up to a lifetime limit of £10 million of gains on disposals of qualifying shares in an unlisted trading company to be taxed at 10% with the remainder subject to Capital Gains Tax at the prevailing main rate.

INHERITANCE TAX

Subject to certain exemptions, inheritance tax (IHT) is chargeable on the aggregate value of an individual's estate at the date of his death, and on the value of any gifts and similar transfers of wealth made by him during the seven years prior to his death. Except in respect of gifts made in the seven years before death, no IHT is payable on gifts made during the individual's lifetime if the gift is made to an individual. Gifts into trust incur tax at the lifetime rate of 20%, subject to certain exemptions. A UK resident and domiciled individual is taxable on his worldwide estate. For non-UK domiciled individuals only UK assets are chargeable (note that from 6 April 2017 the definition of 'UK assets' is extended to include indirectly held residential property).

From 6 April 2017 an individual is deemed to be UK domiciled for IHT and all tax purposes once he has been resident in the UK in 15 out of the 20 preceding tax years. In addition, special treatment applies for those with a foreign domicile who were born in the UK.

SALES TAXES/VAT

BASIS OF TAXATION

Most businesses must account for value added tax (VAT) on their sales of goods and services. Depending on the nature of the goods or services, they can be taxed in a variety of places depending where the supplier and customer are established, where the goods are located, where the services are performed or 'used and enjoyed', or where any relevant interests in land are situated. In addition, for cross border transactions, complex rules apply in many instances to determine whether the tax is payable by the supplier or the customer under the reverse charge provisions and whether a non-resident supplier is required to register for VAT in the UK. In accounting to HMRC for the VAT collected, a business is normally allowed to deduct the VAT it has accrued on expenditure, with some exceptions.

STANDARD-RATED OR REDUCED RATED SUPPLY

Most sales are subject to VAT at the standard rate of 20%. Some however can be subject to the reduced rate of 5%. It is important to charge the correct rate – failing to do this may result in HMRC issuing penalties and imposing interest charges. It can also be difficult to correct the error at a later date and there is a strict process to follow.

EXEMPT/0% RATED SUPPLY

A VAT-exempt business (e.g. in real estate or finance) should be contrasted with one where VAT is due at 0% (e.g. selling food, books, children's clothing). No VAT is charged to the customer in either case, but the business can claim a repayable VAT credit if the sales are 0% rated, though not if it is exempt.

PARTIAL EXEMPTION

Where a business has activities that are both taxable and exempt for VAT purposes, it is partly exempt and must perform calculations for every VAT return to work out how much input VAT can be reclaimed. These calculations can be complex and are frequently challenged by the tax authorities. Although partial exemption is common across the European Union, the necessary calculations and legal obligations can be different in every EU member state.

VAT RETURNS

Returns declaring income, expenditure, VAT and movement of goods within the EU need to be completed frequently. All VAT returns and other declarations are now filed online and the UK authorities introduced a new electronic filing system ('Making Tax Digital') on 1 April 2019. Returns are normally filed on a quarterly basis, although some businesses can choose to file monthly or annual VAT returns instead. The VAT is payable at the same time, although certain businesses may be allowed or required to pay by monthly instalments or place a sum on deposit. Significant penalties and interest may be incurred for late or incorrect payments/returns.

Other forms of return may be required to declare the movement of goods into or out of the UK.

PROPERTY TRANSACTIONS

The VAT treatment of transactions in property can vary considerably. Sometimes they will be subject to the standard-rate VAT compulsorily or by election, whilst in other cases zero-rated, reduced-rated or exempt, with or without a credit for VAT paid on costs. This topic is extremely complicated with often significant sums at stake and the possible outcomes for suppliers and customers can be significantly different with complex interactions with other taxes. It is therefore beyond the scope of this report and specialist advice should be sought.

OTHER TAXES

CUSTOMS DUTIES

Customs import duties are levied on goods imported into the UK although goods originating in the EU can be imported without tariffs. Other reliefs may be available (e.g. inward processing relief). Import duty is chargeable on most goods including agricultural products, raw materials and manufactured goods. The rate of duty can vary. It is calculated by applying the relevant percentage to the value of the imported goods. HMRC have specific methods for valuing imports. Other things to consider include anti-dumping provisions to protect home markets: this can increase the duty payable.

Preferential treatment, and sometimes complete exemption from duty, is granted when goods are imported into the UK from certain countries such as members of the European Free Trade Association. The UK has many trade agreements with different countries worldwide.

Customs duties are often overlooked – businesses who import into the UK should take care to ensure that the import process is managed and that the correct amount of duty is being paid.

BREXIT

The UK left the EU with effect 1 January 2021 when the transition period ended. This means the UK is no longer part of the EU common customs area or single market for VAT purposes. The Trade and Cooperation Agreement with the EU introduces a number of simplifications intended to limit the damage to UK / EU trade. If you act as an importer of record for UK goods you would need a GB EORI number. You are likely to incur import VAT which can be recovered via your UK VAT return if Postponed VAT Accounting is utilised, otherwise import VAT is due either at the time of importation or through a deferment account if one is in place.

ONLINE TRADE

New rules came into effect 1 January 2021 which effect the sale of goods purchased online outside of the UK. For business to consumer sales with a consignment value less than £135, the overseas seller must register for VAT in the UK. If the consignment value exceeds £135 then VAT accounting obligations are determined by reference to the importer of record.

There are also new rules for online marketplaces that must be considered. These result in joint and several liability for the online marketplace.

INWARD PROCESSING RELIEF

Inward Processing Relief (IPR) is where goods are imported into the UK from a destination outside of the UK to undergo some form of processing. On completion, the goods are re-exported to a destination outside of the UK. IPR works by relieving the importer from paying import VAT and duties on arrival.

The procedures to apply for IPR can be complicated because there are various authorisations. There can be significant cash flow differences between not paying the duty and VAT at all, as opposed to paying it initially and reclaiming it later. This regime is naturally controlled very tightly by the UK tax authorities.

BONDED WAREHOUSES

The bonded warehouses system may be used by importers of goods liable to customs and excise duties, to postpone payment of duties until goods are removed from the warehouse for UK use. Duty is not charged if the goods are re-exported from a bonded warehouse to a destination outside of the UK.

ENVIRONMENTAL AND OTHER TAXES

A range of environmental and other taxes are levied on different industry sectors such as Air Passenger Duty [APD], Insurance Premium Tax [IPT], Climate Change Levy [CCL], Landfill Tax, Aggregates Levy and others.

These are too numerous to be included in any detail in this report but advice should be sought to ensure that any legal requirements or obligations are met.

STAMP DUTY

Contracts for the sale or transfer of shares or securities, including the purchase by a company of its own shares, are subject to a rate of duty (0.5%) for every GBP 1,000 of consideration or part thereof.

STAMP DUTY LAND TAX (SDLT)

Conveyances or transfers of other property (e.g. land and buildings or related goodwill) are subject to various rates up to 12% based on the value of the transaction, nature of the property or the purchaser (see Appendix II). The standard residential property rate may be increased by 3% if additional residential properties are acquired which could increase the rate to a maximum of 15%.

Instruments granting leases over non-residential land or buildings are chargeable at 1% times the net present value of the rent over the whole term of the lease, including upward reviews, minus GBP 150,000. A licence, or tenancy at will, is exempt from SDLT.

COUNCIL TAX AND RATES

Local councils levy a charge on businesses occupying premises within their area, based on a notional value of the property, to fund local services including law and order, education, refuse collection etc. A single business rate is normally set for each fiscal year ending 31 March and the amount payable varies with the rate and the value of the premises. Reduced rates are available for charities or unoccupied remises.

A similar system is in place for residential property.

7 – ACCOUNTING & REPORTING

The accounting regulations and disclosure requirements applicable to UK companies are extensive, detailed and complex. Except where otherwise stated, this guidance relates to businesses incorporated in the UK. The following is only a brief summary, and reflects the law as at April 2024.

APPLICABLE REGULATION

LIMITED COMPANIES

Limited (or incorporated) companies, including subsidiaries of parent companies incorporated outside the UK, are governed in the first instance by the Companies Act 2006 which includes provisions relating to:

- the maintenance and retention of accounting records,
- the maintenance of registers and minutes relating to directors and shareholders and their meetings,
- the form and content of annual accounts,
- the publication to shareholders and the public filing of annual accounts,
- the requirements for annual accounts to be audited, and
- voluntary and enforced corrections of unsatisfactory annual accounts.

The Act makes provision for various classes of company. The most important of these are:

- Public limited companies (plcs) – plcs are those companies authorised to issue shares to the public.
- Large, medium-sized and small, private limited companies – medium-sized and in particular small companies are subject to some exemptions from, and some simplifications to, the accounting requirements applicable to larger companies.
- Micro-entities – The UK permits very small companies that qualify to be treated as "micro—entities" to prepare highly simplified annual accounts.

LIMITED LIABILITY PARTNERSHIPS (LLPS)

Limited liability partnerships are governed in the first instance by the Limited Liability Partnerships Act 2000. Detailed regulations for accounting and reporting are similar to those for ordinary limited companies, but there are some differences.

OVERSEAS COMPANIES

Overseas companies are businesses incorporated outside the UK but operating within the UK through a branch or representative office, and not through a UK subsidiary company. They are also required by the Companies Act to register their place of business and to file annual accounts of the company (not the branch) with the Registrar of Companies.

OTHER BUSINESS STRUCTURES

There is no regulation directly governing the accounting practices of unincorporated businesses, such as sole traders or partnerships. However:

- Various aspects of tax legislation require that vouchers are kept for a number of years to support any required tax computations.
- Subject to any particular adjustments required by legislation, unincorporated businesses are taxed on profits determined on a 'true and fair' basis.

- Unincorporated businesses operating in some particular fields, such as the provision of investment advice, are subject to specific accounting and auditing regulations equivalent to those applying to companies.

ACCOUNTING STANDARDS

Public companies with shares traded on the London Stock Exchange, or on AIM or the Aquis Stock Exchange, are required to prepare their consolidated accounts in accordance with UK adopted International Accounting Standards (IAS). Other companies are also permitted to adopt IAS.

For companies and LLPs that have not adopted IAS, generally accepted accounting practice in the UK (UK GAAP) is determined by the Financial Reporting Council (FRC). Although most routine transactions and balances are accounted for in the same way under IFRS and under the UK GAAP, there are some differences.

PERIOD END ACCOUNTS

Every UK company registered under the Act is required to prepare a set of accounts that gives a true and fair view of its profit or loss for the year and of its state of affairs at the year end. Annual accounts generally include:

- A directors' report (Large and medium-sized companies must also give a separate "Strategic report")
- An auditor's report
- An income statement (profit and loss account)
- A statement of financial position (balance sheet)
- A statement of other comprehensive income
- A statement of changes in equity
- A cash flow statement (not required for small companies)
- Comprehensive notes to the accounts (micro-entities give only the notes specified in the applicable accounting standard).

Most of these notes present in more detail the figures in the balance sheet, profit and loss account and cash flow statement. In addition, and where applicable, the notes to the financial statements may include:

- A statement concerning any significant doubts surrounding a business' ability to continue as a going concern.
- Details of significant post balance sheet events.
- Details of material transactions with related parties including the directors.
- The identity of parent companies that prepare group accounts, and the ultimate controlling party of the company.
- For quoted companies, details of policies on, and exposures to, exchange rate, interest rate, liquidity and market value risks.

If a UK company is a parent company, consolidated accounts must also be prepared, although there is an exemption from this requirement for qualifying small private companies. In addition, in certain circumstances, if an overseas parent prepares and publishes group accounts that include the UK holding company, the UK parent can be exempted from preparing consolidated accounts for the UK sub-group.

Comparative figures should also be given for almost all items and analysis given in the year-end financial statements.

All of the above requirements apply equally to LLPs except that no directors' report (nor any equivalent report) is required.

The accounts must be provided to each shareholder or member of a limited company or LLP, although there are regulations permitting a company to send only summary financial information to its members.

AUDIT REQUIREMENTS

The Act requires that the annual accounts include a report from suitably qualified, registered auditors to the shareholders (or members of an LLP) stating in particular whether or not, in the auditors' opinion the financial statements: give a true and fair view of the state of the company's [or group's and of the parent company's] affairs as at [date] and of the company/group's [profit/loss] for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006
- the strategic and directors' report (of a company) are consistent with the financial statements.

In appropriate circumstances, dormant companies, subsidiary companies and some small private companies (and similarly LLPs) may be exempt from the requirement to have their accounts audited (see Appendix III for further information).

Audits are nevertheless often required by:

- Providers of finance.
- Business owners preferring to obtain the assurance of an audit.
- Regulatory or trade bodies.

FILING OF THE ACCOUNTS

All limited companies and LLPs must place a copy of their annual accounts on the public record by filing them with the Registrar of Companies.

Generally, the filed accounts must be identical to those sent to the members - the 'file what you prepare' model, i.e. accounts filed at Companies House are the same as those prepared for the members. However, small companies can choose not to file the profit and loss account and/or the directors' report, so-called 'filleted accounts'.

The accounts on the public file must bear the manuscript signatures of a director (essentially to confirm that these are an accurate copy of, or extract from, the shareholder accounts).

There are time limits starting from the end of a company's accounting reference period for the filing of the accounts with the Registrar of Companies. These are:

- for a public company – six months, or
- for a private company or an LLP – nine months.

Penalties are incurred when there is a breach of these time limits and directors may be prosecuted.

8 – UHY REPRESENTATION IN THE UK

UHY Hacker Young, a founder member of UHY, is one of the leading firms of UK chartered accountants. Established almost 100 years ago, UHY Hacker Young has grown into a national group of firms.

We have 24 offices in major business centres around the UK (listed below), providing a full range of tax, accounting and business advisory services to personal and corporate clients, including:

- audit and accounting
- company secretarial services
- corporate finance
- general business advice
- AIM support & admission
- corporate tax advice
- personal tax and financial planning
- VAT consultancy
- payroll administration
- bookkeeping, budgeting and forecasting
- independent financial advice
- Sarbanes Oxley advice
- corporate recovery and insolvency
- litigation support and forensic accounting
- FCA compliance
- tax investigations.

Everything we do at UHY Hacker Young is driven by our purpose of 'helping you prosper'

Expanding your business abroad is a big step. We have taken numerous business owners through all stages of the business lifecycle, from setting up business in the UK through fast growth and ultimately exit.

Always driven by our purpose of **helping you prosper,** our goal is to ensure a financially secure and profitable outcome for both businesses and business owners. We will devote time at the outset and throughout to getting to know you and to understanding your long-term goals, and to determining what prosperity means to you. You will then have a dedicated team, comprised of our in-house specialists, who will look for ways throughout our engagement to supporting you to achieve that. We are also able to make introductions to third parties, where necessary, in order to facilitate your plans.

Through our broad client portfolio, not only do our business advisers have a wide breadth of experience across diverse businesses which informs their commercial acumen, but this also provides them with an extensive contact network, which they can call upon to support your business growth in the UK. Read more about how we can support you on our website at www.uhy-uk.com.

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- Birmingham
- Brighton & Hove
- Bristol
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- Cambridge
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- Letchworth
- Manchester
- Newbury
- Nottingham
- Sheffield
- Sittingbourne
- Swindon
- Winchester
- York
- Wales
- Abergavenny
- Newport

Northern Ireland
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For more information on UHY Hacker Young, our people and services, please see our website: www.uhy-uk.com

The UHY Hacker Young Group is a group of independent partnerships.

Each office is registered to carry on audit work by either the Institute of Chartered Accountants in England & Wales or the Association of Chartered Certified Accountants. Where applicable, offices and their associated businesses are regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales or directly by the Financial Services Authority.

Full details for each office are available on our website:
www.uhy-uk.com/locations-people

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APPENDIX I – SOURCES OF INFORMATION

BUSINESS ENVIRONMENT

Bank of England
Companies House
Department for Business, Energy & Industrial Strategy
Financial Conduct Authority
The Insolvency Service
Local Government
London Stock Exchange
Aquis exchange
Ministry of Justice

FOREIGN INVESTMENT

Department for Business, Innovation and Skills
General business advice
British Chambers of Commerce
Department for International Trade
Department for Environment, Food and Rural Affairs
Companies House

SETTING UP A BUSINESS

Companies House
London Stock Exchange
Aquis exchange
HM Revenue & Customs
Information Commissioner's Office
UK Intellectual Property Office
The Association of British Insurers
Chartered Insurance Brokers directory
The Law Society (for England and Wales)
The Law Society of Scotland

EMPLOYMENT

Chartered Institute for Personnel and Development
Department for Business, Innovation and Skills
Health & Safety Executive

TAXATION

HM Revenue & Customs
Chartered Institute of Taxation

ACCOUNTING AND REPORTING

The Institute of Chartered Accountants in England and Wales
Companies House
Accountingweb[36]

[36] A web based community site for accountants and tax professionals, incl. directories and news services

APPENDIX II – UK TAX RATES

For a full list of current tax rates please see the UHY Hacker Young website.

MAIN INCOME TAX RELIEFS

Allowed at top rate of tax	2024/25	2023/24
Personal allowance GBP	GBP 12,570	GBP 12,570

Personal allowances are reduced by GBP 1 for every GBP 2 that taxable earnings exceed GBP 100,000. In 2023/24, £1,260 may be transferable between certain spouses where neither pays tax above the basic rate

INCOME TAX RATES AND BANDS

Tax rates	2024/25	2023/24
Basic rate tax 20%	GBP 0-37,700	GBP 0-37,700
Higher rate tax 40%	GBP 37,701-125,140	GBP 37,701-125,140
Additional rate tax 45%	GBP over 125,140	GBP over 125,140

The higher rate threshold is frozen at £37,700 and the personal allowance is fixed at £12,570 for the years 2025-26 to 2027-28.

The additional rate threshold is lowered to £125,140 with effect from 6 April 2023 and fixed at that amount up to and including 2027-28.

DIVIDENDS/ INTEREST/OTHER

Tax rates 2024/25	Dividends	Interest	Other
Basic rate	8.75%	20%	20%
Higher rate	33.75%	40%	40%
Additional rate	39.35%	45%	45%

A personal savings allowance (PSA) lets you earn a certain amount of interest tax-free. This allowance is available to basic rate taxpayers (currently £1,000) and higher rate taxpayers (currently £500) but not to additional rate taxpayers. A 0% rate of income tax applies to savings income covered by the PSA.

You may be eligible for the starting rate for savings if your non-savings income is less than £17,570 per year. The starting savings rate allows you to earn up to £5,000 in savings interest completely tax-free. This is in addition to your personal income tax allowance and personal savings allowance.

Every £1 of other income you earn above your personal allowance (£12,570 for most people) reduces your savings starting rate by £1.

A dividend allowance, £500 for 2024-25, is available to all taxpayers. This allowance was £1,000 for 2023-24. A 0% rate of income tax applies to dividends covered by the allowance.

DISCRETIONARY TRUSTS

Discretionary trust rate	2024/25	2023/24
For dividend income	39.35%	39.35%
All other income	45%	45%

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 (Earnings relates)	2024/25
Employee contributions (weekly earnings) On first GBP 242	0%
On earnings between GBP 242.01 - 967	8%
On earnings above GBP 967	2%
Employer contributions (weekly earnings): On first £175	0%
On earnings over GBP 175	13.8%

Employer contributions (currently 13.8%) are due on most benefits in kind and on tax paid on an employee's behalf under a PAYE settlement agreement.

Class 2 (self-employed)	2024/25	2023/24
Flat rate per week (where profits are over £12,570, £11,908 in 2022/23)	Abolished from 6 April 2024	GBP 3.45
Profits between GBP 6,725 and GBP 12,570	Abolished from 6 April 2024	GBP 0.00

Class 3 (voluntary)	2024/25	2023/24
Flat rate per week	GBP 17.45	GBP 17.45

Class 4 (self-employed)	2024/25	2023/24
Profits between GBP 12,570 and £50,270 per year	6%	9%
Profits above £50,270 per year	2%	2%

INHERITANCE TAX

Value of Estate	2022/23 & 2024/25
GBP 0-325,000	Nil
Above GBP 325,000	40%

There is an additional residence nil-rate band for main homes bequeathed on death of £175,000 (£150,000 in 2019/20). However, there is a tapered withdrawal of this amount where the total estate exceeds £2 million in value.
Lifetime chargeable transfers are payable at half the death rate, i.e. 20%.

Business property relief (BPR) stands at 100% for all shareholdings in qualifying unquoted trading companies and for most unincorporated trading businesses: 50% is available on other relevant business assets.

Agricultural property relief stands at 100% for qualifying holdings of agricultural land. The relief is limited to 50% in other cases.

Annual exemption for lifetime gifts per donor	GBP 3,000
Small gifts – annual amount per donee	GBP 250

Reduced tax charge applies on transfers within seven years of death

Years between gift and death	% of full charge at death rates
0-3	100
3-4	80
4-5	60
5-6	40
6-7	20
Over 7	Nil

CAPITAL GAINS TAX

Annual exempt amounts	2024/25	2023/24
Individuals*	GBP 3,000	GBP 6,000
Trusts generally	GBP 1,500	GBP 3,000

*Individuals, certain trusts, personal representatives for year of death and two years thereafter.

The capital gains tax annual exempt amount has been reduced from £6,000 to £3,000 for 2024-25 and subsequent tax years.

Net gains after all reliefs and annual exempt amounts are taxed at 10% for basic rate tax payers. Individuals in the higher and additional rate band and trusts are taxed at 20%. This does not include residential property gains and carried interest.

Residential property gains (where not exempt) are taxed at 18% and 24% (previously 28%) from 6 April 2024.

Carried interest gains are taxed at 18% and 28%.

Gains qualifying for Business Asset Disposal relief (subject to lifetime limit on gains of GBP 1million) or Investors' Relief (subject to a lifetime limit of GBP 10 million) are taxed at 10%. Gains in excess of the lifetime limits are charged at the main prevailing rate (20% for 2024/25).

CORPORATION TAX

From 01 April 2023	Rate
Profits above £250,000	25%
Profits below £50,000	19%
Profits between £50,000 and £250,000	Marginal tax rate

Main capital allowances	2024/25	2023/24	2022/23
Corporation Tax super deduction (on certain new plant and machinery)	-	-	130%
Full Expensing (on certain new plant and machinery)	100%	100%	-
Plant and machinery			
writing down allowance	18%	18%	18%
Integral assets and long-life assets (certain new)	50%	50%	50%
certain energy efficient plant, zero emission cars	100%	100%	100%
other plant and machinery	18%	18%	18%
cars over 50g/km CO2,	6%	6%	6%
integral assets writing down allowance	6%	6%	6%
Structures and Buildings Allowance	3%	3%	3%

Annual Investment Allowance (excludes cars): This increased to £1,000,000 from 1 January 2021 (previously £200,000).

VALUE ADDED TAX

VAT	
Standard rate (1/6 of VAT-inclusive price)	20%
Registration level	GBP 90,000 per annum
Deregistration level	GBP 88,000 per annum

STAMP DUTY

Land and buildings in England and Northern Ireland:

Residential(*)(***) (£)	Rate %	Non-residential(**)(£)	Rate %
0-250,000	0	**0-150,000**	0
250,001-925,000	5	**150,001-250,000**	2
925,001-1,500,000	10	**Over 250,000**	5
Over 1,500,000	12		

*Payable on consideration which falls in each bracket.
**Payable on total consideration once limit is breached.
***All rates increased by 3% for second or buy to let dwellings over £40k.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain 'non-natural persons'.

Different rates apply in Scotland under the Land and Buildings Transaction Tax. See www.revenue.scot/land-buildings-transaction-tax for rates and information.

Different rates also apply in Wales under the Land Transaction Tax. See https://gov.wales/land-transaction-tax for rates and information.

APPENDIX III – ACCOUNTING THRESHOLDS

QUALIFYING FOR REDUCED OBLIGATIONS AS A SMALL OR MEDIUM-SIZED COMPANY

Certain disclosures and statutory exemptions are available to small and medium-sized companies. There are, however, a number of qualifying conditions that have to be met before a company can be classified as small or medium-sized, not just relating to size.

The size criteria, which have recently increased are shown in the table below. These are effective for periods commencing on or after 1 January 2016. At least two out of three of these conditions must be met in the year in question for a company to qualify as small or medium-sized, as the case may be. After a company's size has been established (by reference to these criteria) the company does not qualify for any smaller category, unless it meets the more stringent criteria for two consecutive years. Similarly, a company does not move up to a new category until it has exceeded two or more of the thresholds for two consecutive years.

SIZE CRITERIA FOR SMALL AND MEDIUM-SIZED COMPANIES:

Condition	Small company	Medium-sized company
Turnover	GBP 10,200,000	GBP 36,000,000
Balance sheet total	GBP 5,100,000	GBP 18,000,000
Average number of Employees	50	250

PLANS TO INCREASE UK COMPANY SIZE THRESHOLDS

In March 2024 the Governance has announced that company size monetary thresholds will change for financial years starting on or after 1 October 2024 if adopted.

The planned changes are summarised as follows:

	Turnover		Balance Sheet Total	
	Current Thresholds	**New Thresholds**	**Current Thresholds**	**New Thresholds**
Micro entity	Not more than £632,000	Not more than £1m	Not more than £316,000	Not more than £500,000
Small entity	Not more than £10.2m	Not more than £15m	Not more than £5.1m	Not more than £7.5m
Medium entity	Not more than £36m	Not more than £54m	Not more than £18m	Not more than £27m
Large entity	Above £36m	Above £54m	Above £18m	Above £27m

In addition, there are no exemptions available to a company which:

- is a public company,
- is an authorised insurance or banking company,

- carries out an insurance market activity or one of several other regulated financial businesses, or
- is, or was in the year concerned, a member of an ineligible group.

A group is ineligible if any of its members is a public company or a body corporate not registered under the Companies Act whose shares are traded on a regulated market (stock exchange) in the EU (for a small company) or anywhere (for a medium-sized company), or which carries out one of the regulated financial activities specified in the legislation.

AUDITING EXEMPTIONS

A small company, as defined by the limits above, is not required to be audited. Where the company is part of a group, the group as a whole must be “small” for the audit exemption to apply. Members with 10% or greater shareholdings may insist that an audit is carried out.

In certain circumstances, a subsidiary is not required to be audited if it is consolidated into the accounts of a parent that gives a public and binding guarantee of the subsidiary’s liabilities. As above, members can insist on an audit being carried out. The subsidiary must nevertheless prepare and file “true and fair accounts” and the auditors of the parent company may well require that some or even extensive audit procedures are undertaken in order to complete their audit of the group accounts.

APPENDIX IV – NATIONAL MINIMUM WAGE AND NATIONAL LIVING WAGE RATES

The National Minimum Wage (NMW) is the minimum pay per hour almost all workers are entitled to by law. It varies depending on a worker's age and whether they are an apprentice. Workers must be school leaving age or over to get the minimum wage.

The National Living Wage (NLW) applies to adults over 21 from April 2024, and replaces the NMW that was in place last year for adults aged 21-22 years.

NATIONAL MINIMUM WAGE AND NATIONAL LIVING WAGE RATES PER HOUR FROM 1 APRIL EACH YEAR

	2024 (GBP)	2022 (GBP)
Adults (21+) (NLW)	11.44	
Adults (23+) (NLW)		10.42
Adult 21 to 22 (NMW)		10.18
18 to 20 (NMW)	8.60	7.49
Under 18 (16 and 17) (NMW)	6.40	5.28
Apprentice*	6.40	5.28

*This rate is for apprentices aged 16 to 18 and those aged 19 or over who are in the first year of their apprenticeship. All other apprentices are entitled to the National Minimum Wage for their age.

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