Doing business in the UK

A tax perspective

Introduction

Doing business in the UK

The UK continues to be one of the most attractive places for global businesses to locate to in the world. With one of the most robust and trusted legal systems, for hundreds of years businesses and assets have been far better protected in the UK than in many other jurisdictions; the UK's legal system is designed to be fair and transparent. The UK has the fifth-largest national economy in the world measured by nominal gross domestic product (GDP).

Financing

Many businesses come to the UK as, simply put, it is easier to raise money here.

We have firm and flexible regulations which enable the active involvement of hedge funds, private equity, banks and private individuals to invest in businesses through equity, loans and other financial instruments. This gives businesses the air that they require to breathe and grow, in turn giving investors the return that they need. Do also refer to our 'Doing business in the UK, audit and accountancy'. The UK finance system supports the sustained and continuous economic growth of the UK and ensures it is one of the best places to do business in the world.

Brexit

On 1 January 2021, the UK left the EU. Whilst this undoubtedly continues to affect UK business, the UK remains a highly attractive place to invest and do business. The people, infrastructure and the rule of law enables the UK to be a great place to invest, all of which are unaffected by Brexit. Equally, the EU remains the UK's largest trading partner over two years after the UK formally left.

Businesses coming to the UK from a tax perspective

Once you have committed to expanding your business into the UK, it's time to turn your attention to tax.

There are two key concerns here:

1. What structure / entity to use

2. Paying people

Entity selection: Company, LLP, branch

Like many jurisdictions, the UK operates two types of legal entity:

A. Company – opaque for tax purposes – pays tax on profits

B. Partnership or LLP - transparent for tax purposes - members pay tax on profits

A branch of a non-UK business, will always be treated as a company for the purposes of UK corporation tax.

In the UK, we do not have an entity where the owners can choose to treat it as transparent or opaque for tax purposes, unlike for example, the US.

From a tax point of view, the entities (company or partnership / LLP) are treated differently, it's not just about who is liable for tax, it's the rates of tax that are applicable

Making Tax Digital (MTD) for VAT

Under the MTD rules, most businesses will be required to keep VAT-relevant data in digital format and to use MTD-compatible software to transfer the required information directly to HMRC.

All VAT registered businesses with a taxable turnover in excess of £85,000 are now obliged to comply with MTD, and will therefore be required to do the following:

- Keep records in a digital format as required by the new regulations
- File their VAT return using MTD compatible software

For more info on MTD for VAT please click here.

Making Tax Digital for Income Tax

The Government is widening the scope of MTD, beyond VAT, and MTD for income tax will be mandatory by April 2026. We are starting to prepare our clients who will be affected by this change.

If you are a landlord or unincorporated business who will need to comply with MTD by April 2026, please contact our cloud accounting team here, who will be able to assist.

A. A company

A company is subject to UK corporation tax. From April 2023, UK Corporation tax is charged at 25% of the tax adjusted profits of the company. A lower rate of 19% applies to smaller companies with profits of £50,000 or less, and where a company's profits fall between £50,000 and £250,000, marginal relief is available such that the company's effective tax rate will be between 19% and 25%.

Although we have seen an increase to the rate of corporation tax to 25% in the UK since April 2023, the reality is the UK still has the lowest headline corporate tax rate in the G7. UK corporation tax legislation provides for a number of valuable reliefs, meaning that the blended tax rate may be far lower than the accounting profits on face value suggest.

For example:

- Research and development - In the UK, we operate a highly incentivised research and development (R&D) tax regime. Depending on whether the company is a small and medium sized entity, or a large entity will affect the regime into which the incentive falls. For SMEs, this can equate to a 130% uplift in the cost of R&D, which loss-making companies can “sell” to HMRC for a tax credit. For large companies, this delivers a 20% taxable credit for R&D expenditure, making this an effective 15% credit against the actual cost of the R&D. As for SMEs, it is possible for loss-making large companies to benefit from a tax credit.

- Capital allowances - This is the tax deductible depreciation of capital assets, meaning that businesses who invest in their infrastructure can obtain tax relief in doing so.

- Substantial shareholding exemption – This provides for a complete exemption from corporation tax on the sale of shares in subsidiary companies, where conditions are met.

- Dividends - The UK does not impose corporation tax on the receipt of dividends by UK companies (subject to anti avoidance) and does not withhold tax on the payment to shareholders, no matter who or what those shareholders are, i.e., individuals, companies, etc.

A. A company

- Withholding taxes - When considering where to establish for tax purposes, you must always take into consideration withholding taxes. The UK imposes withholding tax on two payments:
    - Interest – tax is withheld at the rate of 20%
    - Royalties – tax is withheld at the rate of 20%

  However, these are only headline numbers. The UK has one of the widest double tax treaty networks of any country. Often the withholding taxes are reduced significantly and in a large number of cases to nil. Moreover, it is possible to structure debt finance within existing UK tax legislation to avoid the need to withhold tax.

UK companies file annual tax returns within 12 months of the end of the company's accounting period. Corporation tax is payable nine months and one day after the end of the accounting period, unless the company is large (or very large), in which case the tax is payable in quarterly instalments throughout the period of accounting.

A. A company

Transfer pricing

The UK operates withinside the Organisation for Economic Co-operation and Development's (OECD) framework for transfer pricing. From April 2023, UK companies that fall within the UK transfer pricing legislation must maintain transfer pricing documentation using HMRC's template.

The company will not need to file the documentation with HMRC – unless they are very large with a global group turnover of more than €750 million, in which case they fall within the country by country reporting regulations – they simply need to make sure they have it in the right format if asked to present it to HMRC as part of an investigation.

B. A partnership or LLP (Limited Liability Partnership)

Although partnerships or LLPs are not taxable themselves, their members are. An LLP must file a tax return on an annual basis. The filing deadline depends on who the members are, but typically filing deadlines are 31 January, following the end of the tax year. Members of an LLP can be individuals, companies, trusts, or anybody else.

This means that either the profits are assessable to income tax and national insurance (NI), or corporation tax. Where a member is an individual, (or trust) the profits will be assessable to income tax (and potentially social security – in the UK this is called National Insurance); the rates of income tax range from 0% to 45% (plus National Insurance) depending on the total income of the individual. Where the member is a company, it pays tax on its profits, as above.

Whilst LLPs can claim much of the same tax reliefs as a company, such as capital allowances, one significant difference is that they are not permitted to use the R&D tax credit scheme. The main benefit of an LLP over a corporate structure is that profits can be allocated in a more flexible way, without the need for complex share arrangements.

Where a business employs an individual who is working for them in the UK, that business will need to register for UK payroll taxes under pay as you earn (PAYE). Where the employer is not resident in the UK and has no business establishment in the UK, they will not be able to register for PAYE and it is the UK employee that will have to do so.

VAT

The UK operates a sales tax: value added tax (VAT) on certain supplies of services or goods. The standard rate of UK VAT is currently 20%, which applies to the majority of VATable supplies, unless the reduced rate (currently 5%) or zero-rating is applicable. There are a number of supplies, that can include the provision of financial services, or the rental of residential property, that may be exempt from VAT. Where a business makes wholly exempt supplies, it is unable to register for UK VAT, with the VAT on costs being irrecoverable.

A UK established business that makes wholly VATable supplies in excess of £85k in any given 12 month period, (or expected to make in the following 30 days) must register for UK VAT and charge VAT on their supplies. By registering for VAT, a business is also able to reclaim VAT that the business has incurred. A UK VAT registered business must file VAT returns on a quarterly (sometimes on a monthly) basis and pay any VAT by the due date.

Please be aware, if you are a non-UK business, and you're selling VATable goods in the UK, and you have no place of business in the UK (i.e. are a non-established business), then the registration threshold is reduced from £85k to nil.

Since 1 January 2021, the UK formally left the EU, accordingly the UK no longer forms part of the EU VAT system. That said, our rules are still fairly similar. The main changes relate to the importing/exporting of goods to and from the EU. This can have major implications as moving goods into the UK from the EU, may need consideration to the duties payable, which was not applicable when the UK was part of the EU.

VAT is a highly complex area and you do not always require a UK entity, UK offices, or people in the UK to be liable to register for VAT. For example, if a non-UK business is selling goods into the UK, and it is acting as the importer into the UK, that non-UK business will likely have to register for VAT in the UK in order to sell those goods.

It is therefore important to understand whether there is a mandatory or voluntary UK VAT registration requirement, or where a UK VAT registration is not possible, looking at mitigating VAT on costs.

How Gravita can help

Gravita has a team of experts who can smoothly guide overseas companies.

If you would like to understand more about when to register for UK VAT and receive guidance on any regimes that would be best suited to your type of business, please contact Sandy Cochrane.

If you are looking to set-up in the UK, please contact Thomas Adcock for help with your direct tax needs.

If you would like assistance with the audit and accountancy, please click through to our 'Doing Business in the UK, audit and Accountancy' or contact Dan Howarth.

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