

Types of business entities in the UK

There are three basic types of business in the UK: sole traders, partnerships and companies. When establishing a business it is important to understand the differences between them, and the advantages and disadvantages of each.

Sole traders and partnerships benefit from less regulation in terms of filing accounts and audit requirements, but do not have the limited liability protection offered by incorporating as a company. Business owners should take advice on the legal, tax and accounting implications of establishing each type of business.

Accounts and audit requirements for companies

A private limited company must prepare statutory annual accounts and complete and submit a Company Tax Return at the end of each financial year. The relevant deadlines are given below:

	Deadline
File first accounts with Companies House	21 months after the date you registered with Companies House
File annual accounts with Companies House	9 months after your company's financial year ends
Pay Corporation Tax	9 months and 1 day after your 'accounting period' for Corporation Tax ends

A company qualifies as "small" and is not required to have an audit if the company meets at least 2 of the following criteria:

- an annual turnover of no more than £10.2 million
- assets worth no more than £5.1 million
- 50 or fewer employees on average

Taxation in the UK

In the UK, the tax authority is Her Majesty's Revenue and Customs (HMRC).

Tax on business profits

Sole traders and partnerships pay income tax on the profits made by their business. Each individual has a personal allowance which is an amount of income which is tax-free. For the tax year 2017-18, the personal allowance is £11,500. Any income in excess of the personal allowance is taxed using a banded tax rate system.

Companies pay corporation tax on the taxable profits of the company's trading activity. A company must prepare an annual tax return to calculate the amount of tax payable based on its taxable profit. If a company is based in the UK, it pays corporation tax on all its profits from the UK and abroad. When a company is not based in the UK but has an office or branch in the UK, it only pays corporation tax on profits from its UK activities.

The rate of corporation tax is set by the Government for the financial year ending on 31 March. If the rate of corporation tax is changed, the profits of an accounting period that straddles the date of change are apportioned and charged at the appropriate rates. The corporation tax rate for all UK companies is currently 19%.

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Value Added Tax (VAT)

Value Added Tax (VAT) is imposed on the supply of goods and service provision in the UK. Certain goods and services are exempt, but most goods and services are not exempt.

A business must be VAT-registered with HMRC when its VAT taxable turnover exceeds £85,000. The rate of VAT varies depending on the nature of goods and services provided. The normal rate is 20%. A VAT-registered business must submit a VAT Return to HMRC every 3 months. This period of time is known as the VAT accounting period. The VAT Return records the total sales and purchases of the business during the three month period, the amount of VAT owed to HMRC on sales made, the amount of VAT reclaimed from HMRC on purchases, and the VAT refund or payment due from or to HMRC for the period.

Registering a business in the UK

When setting up a company there are various forms which need to be submitted to Companies House, which detail facts such as the name of the company (which must be unique), the registered office address for the company (this must be in the UK), the names and details of the individual(s) who will be the company director(s) and details of the company's shares - a company needs at least one shareholder. Legal documents called Memorandum and Articles of Association also need to be submitted. When satisfied that all formalities have been followed, the Registrar of Companies issues a certificate of incorporation and the company can commence trading

Registering a sole trader

No legal registration is needed in terms of the business itself, as it is not established as a legal entity in its own right. However, there is a requirement to register with HMRC. Sole traders can trade under their own name, or can choose another name for the business. The name does not need to be registered. Sole trader names must not include 'limited', 'Ltd', 'limited liability partnership', 'LLP', 'public limited company' or 'plc'.

Import / Export Regulations

When exporting goods within the EU a license may be required for certain goods, e.g. chemicals, animals and military goods. VAT should be charged on exports within the EU. An official customs declaration must be made, detailing the type of goods, quantity, their sales value, and insurance details.

The importation of certain goods is prohibited or restricted, e.g. illicit drugs, indecent and obscene material and counterfeit, pirated and patent-infringing goods.

Import licenses are needed for certain goods, e.g. livestock, certain textiles and livestock. Certain imports are subject to a tariff, depending on the type of goods being brought into the UK and their origin. However, most imports do not need a license or are subject to tariff.

In relation to exports and imports, all records of commercial invoices, official declarations and any other customs paperwork must be kept for 6 years.

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