FEFE

Financial Education for Future Entrepreneurs

UK COUNTRY GUIDE

Intellectual Output No.4

APRIL 21, 2017

ASTON BUSINESS SCHOOL

Contents

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.
[Project Number: 2016-1-UK01-KA202-024585]

General Information about the United Kingdom

What languages are spoken?

The official languages of the UK is English.

What is the currency in the UK?

£ (sterling).

What is the telephone country prefix?

+44

Setting up a business in the UK

Types of business entities in the UK

Sole trader

Sole traders are individuals who own and run a business without establishing the business as a separate legal entity. The main characteristic of a sole trader is that the business is operated by a single person who has full liability for the business' liabilities.

A sole trader may trade under a chosen business name but the business cannot enter into contracts because it has no individual legal status of its own. Any tax to be paid on the profits made by the business are taxed as income of the sole trader who is responsible for submitting relevant information to the tax authority, Her Majesty's Revenue and Customs (HMRC), and for settling the tax liability.

There is no requirement to inform the Registrar of Companies on the commencement of the business, but HMRC must be informed when the business begins to trade. The business does not have to file statutory accounts but simple accounts may need to be maintained to enable the business' tax to be calculated. There is no audit requirement because is it not a company. This makes the administration of a sole trader's business very straightforward. However, the fact that the sole trader is personally responsible for all actual and potential liabilities and losses made by the business is a significant disadvantage to operating a business in this way.

Partnership

In a partnership, several partners share the roles and responsibilities for running the business. A partner does not have to be an actual person. A private limited company is a separate legal entity and can be a partner in a partnership arrangement.

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.
[Project Number: 2016-1-UK01-KA202-024585]

Partners share the profits or losses made by the business with each partner paying tax on their share of profit. The profits or losses are assumed to be shared equally between the partners unless an alternative allocation is agreed on by the partners and formalized in a legal partnership agreement.

In the UK, several types of partnerships exist. In an unlimited partnership, the partners share responsibility for the liabilities of the partnership in a similar way as a sole trader takes on the debts of his or her business. As this can be risky for the partners, it is common for a different type of partnership to be established, called a Limited Liability Partnership, denoted by the suffix 'LLP'. In an LLP, the partners share the profits and losses but their liability is limited, providing an advantage for this type of partnership arrangement. LLPs are regulated by the Limited Liability Partnerships Act 2000, and many of the provisions of the Companies Act 2006 also apply, meaning that an LLP must comply with many more regulatory requirements than a sole trader or an unlimited partnership.

Company

There are two main forms of company in the UK – private limited companies and public limited companies.

Private limited company

A private limited company is the most common form of trading entity in the UK. The company name is suffixed by the abbreviation 'Ltd' to indicate its status as a private limited company.

A private limited company is a separate legally incorporated entity with its own assets and liabilities. The company's owners (i.e. shareholders) will not be liable for the liabilities of the company beyond their investment in the company's share capital, unless they have provided a guarantee in respect of any specific liabilities. This is one of the main advantages of incorporating a business as a private limited company. Other advantages may include enhanced credibility for the business and gaining easier access to finance, which may also be cheaper than for sole traders.

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.
[Project Number: 2016-1-UK01-KA202-024585]

A private limited company must comply with accounting, audit and regulatory requirements which are set out in the Companies Act 2006. The main regulatory requirements for a private limited company in terms of accounting are:

• filing an 'annual return' which contains information about the company's share capital and directors with the Registrar of Companies. This may simply be a confirmation that there have been no changes since the previous annual return. The Registrar of Companies must also be informed during the year of any changes including resignation and appointment of directors, a change in the share capital and a change of registered office address.

• filing statutory accounts for the company for each financial year/period and circulating accounts to the shareholders.

Public Limited Company

A Public Limited Company in the UK is a company whose shares may be sold to be public and traded on the open market. The suffix 'plc' is used to denote a public limited company. Only a company of a sufficient size may become a plc; a minimum share capital of £50,000 is required. Many plc companies are listed on one of the London stock exchanges, though some plcs are not listed. Plcs are governed by the Companies Act 2006, and if listed they must also adhere to the listing rules of the relevant stock exchange.

Taxation in the UK

In the UK, the tax authority is HMRC. Tax years run from 6 April annually, and tax rates are set for each tax year by the Government.

Income tax – sole traders and partnerships

An individual who is tax resident in the UK is taxed on income accruing or arising from sources both within and outside the UK. As discussed in the preceding section, individuals who are sole traders or partners in a business pay income tax on the profit (or their share if profit in a partnership). 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. Individuals with income over

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein. [Project Number: 2016-1-UK01-KA202-024585]

£100,000 have an adjustment made to reduce their personal allowance, and once income reaches £123,000 the personal allowance is eliminated.

Personal income tax rates

The personal income tax rates for 2017/18 can be found in the table below:

Band	Taxable Income £	Tax Rate %
Personal allowance	0 – 11,500	0
Basic rate	11,500 – 45,000	20
Higher rate	45,001– 150,000	40
Additional rate	150,001 and over	45

The bands above relate to most types of income, and would apply to the taxable profits made by a sole trader or partnership business. Special bands and allowances are applied for income from savings and to dividend receipts.

Company (Corporation) Tax

A new company must register with HMRC within three months of commencing trade or becoming active. Failure to notify can result in a penalty. A company must prepare an annual tax return to calculate the amount of tax payable based on its taxable profit. A company's profit for statutory accounting purposes is not necessarily the same as its taxable profit, for example if a company incurs expenses which are not allowable for tax purposes (such as client entertaining expenses).

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 corporation tax rate for all UK companies is 19%. There are some reliefs from company tax, including Research and Development (R&D) Relief, The Patent Box which is relevant where a company makes a profit from patented inventions, and reliefs for creative industries (CITR) if a company makes a profit from theatre, film, television, animation or video games.

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein. [Project Number: 2016-1-UK01-KA202-024585]

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.

Value Added Tax (VAT)

Imposition of Tax

Value Added Tax (VAT) is imposed on the supply of goods and service provision in the UK. Certain good and services are exempt (for example health services provided by doctors and selling antiques), but most goods and services are not exempt.

A business must be VAT-registered with HMRC when its VAT taxable turnover exceeds £85,000.

Rate of VAT

The rate of VAT varies depending on the nature of goods and services provided as shown in the table below:

Rate	VAT %	What the rate applies to
Standard	20%	Most goods and services
Reduced rate	5%	Some goods and services, e.g. home energy
Zero rate	0%	Zero-rated goods and services, e.g. books, most food and children's clothes

VAT Returns and payment / refund of VAT

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.

A VAT-registered business must submit a VAT Return even if there is no VAT to pay or reclaim for the accounting period.

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein. [Project Number: 2016-1-UK01-KA202-024585]

Legal registration requirements and procedure to establish a business startup in the UK

Registering a company

The initial step in setting up a company is to determine the following:

- ✓ The name of the company - the name must be unique, meaning that a new company may not choose a name which has already been registered on the UK companies register. The name may not include such words as 'International', 'British', 'Holdings' or 'Group' without the prior approval of the Registrar of Companies.
- ✓ The registered office address for the company – this must be in the UK.
- ✓ The individual(s) who will be the company director(s) – there must be at least one director. Directors do not need to live in the UK. The home addresses of company directors are made publically available.
- ✓ Details of the company's shares – a company needs at least one shareholder. To register the company, details need to be given on the number of shares of each type the company has and their total value - known as the company's 'share capital', and the names and addresses of all shareholders - known as 'subscribers' or 'members'.

Once the above have been determined, the company can be registered. This involves filing a number of completed and signed documents with Companies House:

• Memorandum of Association – a statement that the subscribers wish to form a company and have agreed to become shareholders of the company

• Articles of Association – the rules under which the company must operate

• Form IN01– the details for the company's registered office, names of the director(s) and company secretary (this is optional for private limited companies), the number and nominal value of share capital, and details of the initial shareholders.

• Registration fee.

When satisfied that all formalities have been followed, the Registrar of Companies issues a certificate of incorporation and the company can commence trading

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.
[Project Number: 2016-1-UK01-KA202-024585]

Registering a Limited Liability Partnership

To establish an LLP the following steps need to be taken:

- ✓ choose a name – similar restrictions apply as for company names, and the name must include 'LLP'
- ✓ determine a registered address (which will be publicly available)
- ✓ have at least 2 'designated members' – these partners have responsibility for matters such as maintaining accounts and ensuring submitting tax returns
- ✓ have an LLP agreement that says how the LLP will be run
- ✓ register the LLP with Companies House - a similar process to that for companies, though the documentation is slightly different.

For partnerships other than LLPs, the registration process is similar to that for sole traders which is covered in the next section.

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'.

Other regulatory considerations for business startups in the UK

Accounts and audit

A private limited company must prepare full ('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

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein. [Project Number: 2016-1-UK01-KA202-024585]

For financial years that begin on or after 1 January 2016, 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

Certain types of business, e.g. financial institutions, must have an audit even if they qualify as small. A small private limited company can be required to have an audit if this is a provision of the company’s Articles of Association, or the shareholders ask for an audit to take place.

Employees

There are many issues which business owners should consider when employing staff, the key points are summarized below:

- ✓ Inform HMRC that the business is taking on staff by registering as an employer – this can do this up to 4 weeks before the business pays the new staff. This is important to ensure that the correct payroll taxes are paid and the business will need to account for National Insurance and set up a Pay as You Earn (PAYE) plan to deal with employee’s income tax deducted at source.
- ✓ Pension arrangements must be available. Recently introduced regulations require the option for all employees to have auto-enrolment into a stakeholder pension
- ✓ Consider the National Minimum Wage and National Living Wage regulations to ensure that the business complies with minimum wage requirements.
- ✓ Check if potential employees has the legal right to work in the UK. Also, depending on the business, heck if you need to apply for a Disclosure and Barring (DBS) check –this is relevant in certain circumstances, e.g. if the employee will work with children or vulnerable people.
- ✓ Take out employment insurance – the business should have employers’ liability insurance.
- ✓ Formal contracts of employment are needed in most cases, and always if someone is employed for more than one month. Details of the job (including terms and conditions) should be given in writing to employees.

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein. [Project Number: 2016-1-UK01-KA202-024585]

Business rates

Business rates are charged on most commercial properties including shops, offices, factories and warehouses. Business rates may also be payable if the business uses part of a building for commercial purposes. The amount to be paid is based on the market value rental of the property.

Business rates are set by the local council and various reliefs are available, including a small business rates relief for properties where the market value rental is less than £15,000 per annum.

Money Laundering and the Bribery Act

Money laundering means putting in place mechanisms whereby money or assets that were obtained by a criminal act are "cleaned" and turned into legitimate funds. Money laundering also includes money which is used to fund terrorism.

The Money Laundering Regulations 2007 apply to certain types of business only. When setting up a business it is important to determine if the business activities fall under the scope of the Anti-Money Laundering (AML) Regulations, which apply to financial and credit businesses, accountants and estate agents. If the AML Regulations apply, there must be strict controls in place to monitor the source of funds coming into the business, so that suspicious activity can then be reporting to the appropriate authorities.

The Bribery Act 2010 applies to all commercial organizations which have business in the UK and it is not just the business which falls under the scope of the legislation, the business can be guilty of the offence if the bribery is carried out by an employee, an agent, or a subsidiary.

Under the Bribery Act, it is illegal to offer, promise, give, request, agree, receive or accept bribes. A business should assess its risk exposure and establish an appropriate anti-bribery policy.

Anti-Competitive Behavior

Businesses must abide by the regulations of the Competitions Act 1998, the pronouncements of the Competition and Markets Authority and associated regulations. In particular, two types of anti-competitive behavior must be avoided, and reported to the authorities:

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein. [Project Number: 2016-1-UK01-KA202-024585]

- Agreeing not to compete with another business – which means operating as a cartel, and can involve price fixing, bid rigging and sharing sensitive information; and
- Abusing a dominant position – which means exploiting an unfair advantage over competitors, customers or suppliers.

Data Protection

A business needs to ensure that any information that it holds about employees, customers, suppliers and other similar information is used fairly and lawfully, used for limited, specifically stated purposes, kept for no longer than is absolutely necessary and kept safe and secure. On establishing a business it is important to set up data protection controls to ensure that these principles are adhered to.

Import / Export Regulations

Exports

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. Businesses exporting over a certain amount to specific countries may need to register to VAT in the destination country – typically this is if the value of exports to a specific country exceeds €35,000.

When exporting to outside the EU, VAT is usually charged at zero-rate. Usually UK duty is not paid on exports but the business must pay any tax or duty which is owed in the destination country. An official customs declaration must be made, detailing the type of goods, quantity, their sales value, and insurance details. This can be complicated and most small businesses use their courier or freight forwarder to produce the declaration. The goods being exported can be held up in customs if the information provided in the declaration is not complete or accurate.

All records of commercial invoices, official declarations and any other customs paperwork must be kept for 6 years

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein. [Project Number: 2016-1-UK01-KA202-024585]

Imports

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.

Imports to the UK from EU countries are subject to VAT, but not import duty.

Imports to the UK from outside the EU are subject to VAT and import duty. In addition, the business must declare these imports to customs – this can be a complicated process, so most small businesses use a courier or freight forwarder to do this for them. The amount of duty to be paid on imports from outside the EU depends on the type of goods which are being imported. In some cases duty is reduced for imports from certain countries – this has to be applied for. The imported goods will not be released by customs until all duty and VAT has been paid.

All documentation relating to imported goods must be kept by the business for 6 years.

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein. [Project Number: 2016-1-UK01-KA202-024585]

References

All of the references listed below are from www.gov.uk, which is the main portal for businesses operating within the UK wishing to understand the relevant rules and regulations.

Starting a business, incorporating a company and accounts and audit:

Sole traders: https://www.gov.uk/set-up-sole-trader

Partnerships: https://www.gov.uk/set-up-business-partnership

Private limited companies: https://www.gov.uk/limited-company-formation

Accounts: https://www.gov.uk/prepare-file-annual-accounts-for-limited-company

Audit: https://www.gov.uk/audit-exemptions-for-private-limited-companies

Tax:

Income Tax: https://www.gov.uk/browse/tax/income-tax

Corporation Tax: https://www.gov.uk/corporation-tax-rates/rates

VAT: https://www.gov.uk/vat-registration

Other considerations:

Accounts and audit: https://www.gov.uk/prepare-file-annual-accounts-for-limited-company

Employing staff: https://www.gov.uk/employing-staff

Business rates: https://www.gov.uk/introduction-to-business-rates

Money laundering and the Bribery Act: https://www.gov.uk/guidance/money-laundering-regulations-introduction

https://www.gov.uk/anti-bribery-policy

Anti-competitive behavoiur: https://www.gov.uk/cartels-price-fixing/overview

Data protection: https://www.gov.uk/data-protection/the-data-protection-act

Exports and imports: https://www.gov.uk/browse/business/exports

Erasmus+

This project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein. [Project Number: 2016-1-UK01-KA202-024585]