

Doing Business in the United Kingdom

2013/14

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1. Introduction

UC&CS is an international organisation providing accountancy, business management and consultancy services through financial business centres in 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 United Kingdom, has been provided by the office of UC&CS representatives:

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You are welcome to contact Ollie Weber-Brown for any inquiries you may have.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and 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 2013.

We look forward to helping you do business in the United Kingdom.

2020 Innovations Limited is a member of UC&CS America, an international association of independent accounting and consultancy firms, whose organising body is UC&CS Global. Each member of UC&CS is a separate and independent firm. Services described herein are provided by 2020 Innovations Limited and/or its member firms and not by UC&CS Global or any other member of UC&CS. Neither UC&CS Global nor any member of UC&CS has any liability for services provided by other members.

2. Business Environment

General Information

Constitution and Political Situation

The United Kingdom consists of England, Scotland, Wales and Northern Ireland. The Republic of Ireland has its own rules and regulations.

The United Kingdom is governed within the framework of a constitutional monarchy, in which the Monarch is the Head of State and the Prime Minister is the Head of Government. Executive power is exercised by Her Majesty's Government, on behalf of and by the consent of the Monarch, as well as by the devolved governments of Scotland and Wales and the Executive of Northern Ireland. Legislative power is vested in the two chambers of the Parliament in the United Kingdom, the House of Commons and the House of Lords, as well as in the Scottish Parliament and the Welsh and Northern Ireland assemblies. The judiciary is independent of the executive and the legislature. The highest national court is the Supreme Court of the United Kingdom.

Economic Situation

The country's annual inflation rate is around 2.8% in March 2013 and this is the average rate over the last 25 years. The companies that are more relevant in the economic framework of the country are the small and medium sized firms. However, there are large companies including many with capital from abroad. Interest rates are currently very low; the Bank of England's current Bank Rate stands at 0.5%, a figure that has remained unchanged since March 2009. The unemployment rate is 7.9% (March 2013).

The monetary system is the UK Pound (UK £). The UK is a member of the EEC (European Economic Community), and the majority of countries in the EEC have the Euro (€) as their currency.

Banking and Finances

The Bank of England is totally responsible for regulating the monetary political policies. The banking system came under extreme pressure in 2008 and some banks were bailed out by the UK Government to avoid a total collapse of the system. Several banks are now still part-owned by the state.

Legal System

The legal system is based on written agreements in the Constitution, international agreements, laws, regulations, resolutions and agreements, as well as European Union Law.

Area and Population

The United Kingdom comprises a large island and several smaller islands located off the north western coast of continental Europe. The UK is surrounded by the Atlantic Ocean in the west and north, the North Sea in the east, the English Channel in the south and the Irish Sea in the west. Northern Ireland is the only part of the UK that shares a land border with another state - the Republic of Ireland.

The UK has a land area of approx. 243,610 sq. kilometers and a population of approx. 63,182,000, the third largest in the European Union. Almost 1/3 of the population lives in England's southeast which is predominantly urban and suburban with a population of about 8 million in the capital city of London. Other countries have their own capital cities: Cardiff is the capital city of Wales; Edinburgh is the capital city of Scotland and Belfast is the capital city of Northern Ireland.

Communications

Communications are generally very good by air, land, sea and train. There is an extensive network of motorways. London Heathrow is the world's third busiest airport in terms of passenger traffic.

Language

As to be expected, the English language predominates both in business and socially.

Time Relative to GMT

The UK is on GMT.

Working Hours

Normal office working hours are 9:00am to 5:00pm or 5:30pm, Monday to Friday. Banking hours are 9:30am to 4:30pm, Monday to Friday. On Saturdays, many banks open between the hours of 10:00am and 3:00pm.

Climate

The climate varies considerably from day to day, season to season and place to place. The UK's position in the mid-latitude westerly wind belt on the edge of the Atlantic Ocean, with its relatively warm waters, yet close to the continental influences of mainland Europe, plays a major role in this. Changes in topography and land use over relatively short distances, together with a long coastline and numerous islands, all add to the variety of weather.

In general, places in the east and south of the UK tend to be drier, warmer, sunnier and less windy than those further west and north. Also, these favourable weather conditions usually occur more often in the spring and summer than in autumn and winter.

National Holidays

The UK has many national (bank) holidays and these do differ slightly in Scotland and Northern Ireland.

New Year's Day	January 1
Holy Week (Easter)	Varies but generally in April
May Day bank holidays	First and last Mondays in May
August bank holiday	Last Monday in August
Christmas Day	December 25
Boxing Day	December 26*

*Sometimes a bank holiday will follow on December 27

3. Foreign Investment

Attractions for Foreign Investors

The UK has long been attractive to foreign investors. The recent announcements by the UK Government with regard to corporation tax rates cuts over the next few years aim to make this even more attractive.

Foreign Investment Regulations

Most foreign investment in the UK is not regulated. Authorisation is however required for investment in sensitive areas such as defence, and regulated areas, such as banking, media and financial services.

In the UK, there are no exchange control or currency regulations affecting inward or outward investment, the repatriation of income or capital, the holding of currency accounts or the settlement of currency trading transactions.

These are areas of the UK with lower levels of economic activity than the rest of the UK for historical economic reasons. This situation is often as a result of the decline in traditional manufacturing industries. 'Assisted Areas' can be found in all regions of the UK. These areas have the potential to benefit from new investment and employment opportunities.

Government Incentives

There are government grants and incentives available at certain times and also selective regional grants specific to certain areas of the country and indeed countries, as England, Scotland, Wales and Northern Ireland all have different schemes.

Tax Incentives

There are tax incentives to encourage investment. There are, for example, Research and Development Tax Credits which effectively allow (for tax purposes) a multiple of the actual funds spent on qualifying activities. New for 2013 is the Patent Box which has a 10% tax rate on company profits generated from exploiting patented inventions.

Tourism

There is a tax exempt scheme for foreign visitors allowing them to claim back VAT (Value Added Tax) on goods bought whilst in the UK and taken home.

4. Setting up a Business

Organisational Models

There are various methods of trading in the UK: as a sole trader (an individual trading in his own name); a partnership (two or more individuals trading); an LLP (Limited Liability Partnership) which is taxed as a partnership and a Limited Company, which is likely to be the most common structure.

Establishment and Start-up of Business Entity

Limited Company

A limited company is a company in which the liability of members or subscribers of the company is limited to what they have invested or guaranteed to the company. Limited companies may be limited by shares or by guarantee. The former of these, a limited company limited by shares, may be further divided into public companies and private companies. Who may become a member of a private limited company is restricted by law and by the company's rules. In contrast, anyone may buy shares in a public limited company.

Incorporation

Company formation is the term for the process of incorporation of a business in the UK. It is also sometimes referred to as company registration. Under UK company law and most international law a company or corporation is considered to be an entity that is separate from the people who own or operate the company.

The majority of UK companies are formed the same day electronically. Companies can be created by individuals, specialised agents, solicitors or accountants. Many solicitors and accountants subcontract incorporation out to specialised company formation agents. Most agents offer company formation packages for less than £100. The cost of carrying out paper filing directly with Companies House is currently £20.

Administration

The company is managed by a director, or board of directors, who run the company on behalf of the shareholders and have a number of legal duties towards the company. All private limited companies must have at least one director. There are a number of qualifying

criteria and restrictions regarding who can act as a director, for example, a director must be a minimum of 16 years of age and not be disqualified from being a director by a court.

The duties are contained in the Companies Act 2006 and include:

- a duty to promote the success of the company
- a duty to act within powers
- a duty to exercise independent judgment
- a duty to exercise reasonable care, skill and diligence
- a duty to avoid conflicts of interest
- a duty not to accept benefits from third parties
- a duty to declare an interest in a proposed transaction or arrangement

Apart from making business decisions, the directors are responsible for preparing and delivering documents on behalf of the company to Companies House and HMRC, such as the company's accounts and the annual return.

A private UK company is not required to have a company secretary but can appoint one if it chooses. If a company has a secretary, the directors will usually delegate the responsibility of sending up-to-date information to Companies House to them. However, the ultimate responsibility for delivering the required documents remains with the company's directors.

5. Labour

There are many rules and regulations in place relating to employment, and there is a minimum wage, set as an hourly rate. The increase in the wage rate generally takes effect from October each year but is announced around April time. The hours of work for employees need to be set out in a Contract of Employment and this document should also set out overtime, holiday entitlement, time off in lieu etc.

The UK has a system for deducting tax and social security contributions (National Insurance) from employees. This system has been in place since around 1945 and is known as PAYE (pay as you earn). Each pay period, a calculation is made and after certain amounts that are effectively free of tax or National Insurance (NI) a percentage is then calculated. Unfortunately, the rates that are free of tax or NI are not the same, and they do tend to change every year. In addition, the employer has to pay NI based on the salary of the employees.

The deductions made by the employer and the amount the employer has to contribute need to be reported on a regular basis to HM Revenue and Customs under a new system from April 2013 - Real Time Information (RTI). The totals due to HMRC need to be paid either on a monthly basis or quarterly basis if the deductions for the 3 months are under a set figure.

Funding for Retirement (Pension Contributions)

There is a State Pension payable and the rate depends on the contributions paid over a number of years. The age from which the state pension can be paid is gradually being extended. There is a move towards the provision of workplace pensions to enhance the state pension benefit and automatic enrolment into such schemes is being introduced over a period of years. If enrolled, the employee, the employer and the government will all contribute to the pension fund.

Benefits in Kind

There is tax and additional NI due if certain benefits are provided to employees. If a company car is provided, for example, there is tax to be paid by the employee based on the list price of the car when new (not the price paid by the company) and the co2 (carbon dioxide) emissions. The higher the level of emissions, the higher the percentage of the value is taxable.

Jobs for Foreigners

Most foreign nationals from EEA Countries are free to work in the UK without a visa. All other nationals, however, require permission from the UK Border Agency. In 2008 the UK Border Agency introduced the Points Based System. This is a 5 tier points based system:

Tier 1: This visa category is for 'high-value migrants' from outside the EEA and covers entry of entrepreneurs, investors, and those very few people who come under the 'exceptional talent' visa.

Tier 2: This category is for 'skilled workers' from outside the EEA with a job offer in the UK. It includes skilled workers who are transferred to the UK by an international company, skilled workers where there is a proven shortage in the UK, ministers of religion and sportspeople.

Tier 3: This category was designed for low-skilled workers filling specific temporary labour shortages. The Government has so far never allocated any visas under this scheme. Unfortunately, this means that you cannot apply for the Tier 3 visa scheme.

Tier 4: This category is for students aged over 16 from outside the EEA who wish to study in the UK. Applicants must have a place at a registered UK educational establishment before they can apply.

Tier 5: This category contains six sub-tiers of temporary worker including creative and sporting, charity, religious workers, and the youth mobility scheme which enables about 55,000 young people every year to work in the UK on working holidays. The visas are awarded to young people from countries that have reciprocal arrangements with the UK.

6. Taxation

Corporation Tax

Limited companies in the UK will pay corporation tax based on profits. The rates currently vary, not dependent on the size of the company but on the taxable profits. The rates run from 1 April to the following 31 March, time apportioned if the business accounting date is different from the latter date above.

Profits are calculated after adjusting for accrued expenses, prepayments, stock etc. Certain expenses are not deductible for tax purposes e.g. entertainment (in most circumstances) and depreciation. Capital allowances are given on capital expenditure however.

A further complication means the bands mentioned below are further restricted based on the number of companies under common control – another very complex area. The profits are taxed at one rate up to a certain level, at a higher rate when profits are between certain levels and then at a third rate when profits go over a certain figure. Recent changes announced should see these rates becoming closer and closer and eventually the complication of the “marginal” rate will disappear. Expected rates are:

	Tax rate on profits		
	<£300,000	£300,001- £1,500,00 0	>£1,500,00 0
2012 (1 April 2012-31 March 2013)	20%	25%	24%
2013 (1 April 2013-31 March 2014)	20%	23.75%	23%
2014 (1 April 2014-31 March 2015)	20%	21.25%	21%
2015 (1 April 2015-31 March 2016)	20%	20%	20%

Value Added Tax (VAT)

Value Added Tax has been a feature in the UK tax system for over 40 years, and in that period has become increasingly complex.

VAT is a tax that's charged on most goods and services that VAT-registered businesses provide in the UK. It's also charged on goods and some services that are imported from countries outside the European Union (EU), and brought into the UK from other EU countries.

VAT is charged when a VAT-registered business sells to either another business or to a non-business customer.

When VAT-registered businesses buy goods or services they can generally reclaim the VAT they've paid.

There are three rates of VAT, depending on the goods or services the business provides. The rates are:

- standard - 20 per cent
- reduced - 5 per cent
- zero - 0 per cent

There are also some goods and services that are:

- exempt from VAT
- outside the UK VAT system altogether

VAT Schemes

For businesses with a turnover of under £150,000 there is a flat rate scheme and the percentage to be paid varies dependent on the type of business. VAT returns are generally filed online (mandatory online filing came in on 1 April 2012) but there is an annual scheme where the returns can be filed annually with 9 equal monthly payments based on the total liability for the previous 12 month period) and a catch up in period 10. There are also special schemes for retailers.

Business Taxes

There are various duties and levies on business which include:

- Aggregates levy
- Air passenger duty
- Betting, gaming and lottery duties
- Climate change levy
- Hydrocarbon oils duties
- Insurance premium tax
- Landfill tax
- Tobacco duties

Personal Tax

UK Resident: The rates of personal tax are set annually, as is the tax free allowance - the amount an individual can earn without paying tax. Recent tinkering with the tax system by successive governments has introduced complexities, such as the tax free allowance being progressively withdrawn when income exceeds £100,000 in a tax year. A £1 reduction for every £2 of additional income results, such that when income exceeds £100,000 by at least twice the rate of the tax free personal allowance then no personal allowances are actually given.

Personal tax rates depend upon the levels of taxable income. For earnings up to £32,010, the rate is currently 20%; between £32,011 and £150,000, the rate is 40%; income over £150,000 is taxed at a rate of 45% (2013/14 rates). The effect of the reduction in allowances mentioned above, however, mean that the effective tax rate is actually 60% on income between £100,000 and this figure plus twice the personal allowance rate (approximately £118,000).

Non UK Residents: From 6 April 2013 a statutory definition of residence (the Statutory Residence test) was introduced. It is designed to give taxpayers greater certainty and clarity as to whether or not they are a UK-resident for tax purposes, and therefore whether or not they are subject to UK income tax and capital gains tax.

The rules are complex and professional advice needs to be taken before the residence status of an individual can be conclusively determined.

The test does not have retrospective effect, so this guide does not apply for tax years before 6 April 2013.

The test distinguishes between 'arrivers' and 'leavers'. Arrivers are people who have not been resident in the UK in any of the previous three tax years. Leavers are people who have been a UK resident in the previous three tax years. Arrivers and leavers must use different measures to establish their residence status.

The first part of the test is an 'automatic overseas test'. The automatic overseas test sets out factors which, if they are met, prove that a taxpayer is conclusively non-resident. If the individual is not conclusively non-resident, one then moves on to the automatic residence test, which sets out factors which prove someone is definitely a UK resident.

7. Accounting & Reporting

The UK is one of over 100 countries throughout the world adopting International Financial Reporting Standards (IFRS). These are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries.

There are various tiers to which the rules will apply, depending on the size of the company. Full International Financial Reporting Standards will apply at the top tier to those companies with public accountability. Entities without public accountability and small publicly accountable entities that are prudentially regulated will be covered by a new Financial Reporting Standard for Mid-Sized Entities (FRSME) and small entities without public accountability will be covered by the Financial Reporting Standard for Smaller Entities (FRSSE).

A company normally needs a full audit, but small businesses will not need to subject their accounts to an audit if they meet two out of the three qualifying criteria for small company accounts:

- Fewer than 50 employees
- Balance sheet total: no more than £3.26m
- Turnover below £6.5m

Subsidiary companies will be let off mandatory audits if their parent companies guarantee their liabilities.

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8. UC&CS Offices Worldwide

For contact details of UC&CS offices worldwide, or for details on how to contact the UC&CS executive office, please visit www.uccs-america.org or www.uccsglobal.org

Annex:

The World Bank (WB) and the International Finance Corporation (IFC) measure business regulations and on its website www.doingbusiness.org shows the following ranking in English (for OECD high income regions):

Economy	Ease of Doing Business Rank ▲	Filtered Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
New Zealand	3	1	1	1	13	1	2	1	8	14	12	12
United States	4	2	5	5	8	9	2	3	20	13	6	14
Denmark	5	3	11	2	6	2	9	11	3	2	20	9
Norway	6	4	13	7	6	3	25	10	7	12	4	2
United Kingdom	7	5	6	6	19	23	1	6	5	9	15	7
Korea, Rep.	8	6	7	9	3	24	6	13	11	1	2	13
Australia	10	7	2	3	15	14	2	18	15	22	10	15
Finland	11	8	17	12	9	8	16	18	9	3	9	4
Sweden	13	9	19	8	5	13	16	11	13	5	17	18
Iceland	14	10	15	15	1	5	16	13	14	30	3	10
Ireland	15	11	4	29	25	18	6	3	1	17	25	8
Canada	17	12	3	22	31	19	9	2	2	22	24	3
Germany	20	13	25	4	2	25	9	22	21	8	5	16
Estonia	21	14	16	13	17	6	16	18	16	4	18	31
Japan	24	15	26	23	11	22	9	8	30	11	21	1
Switzerland	28	16	24	17	4	7	9	31	6	20	14	26
Austria	29	17	28	25	10	12	9	22	23	15	7	11
Portugal	30	18	10	26	14	11	28	13	23	10	16	19
Netherlands	31	19	20	27	21	17	20	26	10	7	19	5
Belgium	33	20	14	20	23	31	25	8	22	18	13	6
France	34	21	8	18	16	29	20	21	17	16	8	25
Slovenia	35	22	9	21	12	26	28	7	19	26	22	24
Israel	38	23	12	30	24	28	6	3	25	6	30	27
Spain	44	24	29	14	22	20	20	22	12	21	26	17
Slovak Republic	46	25	21	16	26	4	9	26	26	31	27	23
Hungary	54	26	18	19	28	16	20	29	28	29	11	30
Poland	55	27	27	31	29	21	2	13	27	24	22	22
Luxembourg	56	28	23	11	20	27	31	29	4	19	1	29
Czech Republic	65	29	30	24	30	10	20	22	29	28	28	21
Italy	73	30	22	28	27	15	28	13	31	25	31	20
SUBNATIONAL												
Greece	78	31	31	10	18	30	27	26	18	27	29	28