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# TEN THINGS TO KNOW BEFORE STARTING A BUSINESS IN THE U.K.

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The United Kingdom is a global-trading powerhouse, possessing an economy that ranks fifth-largest in the world and second-largest in Europe.

Given its vast GDP (an estimated \$2.8 trillion in 2018), the U.K. remains a vitally important market for the export of American goods and services. Notably, the importance of the U.K. market hasn’t diminished in the face of ongoing Brexit uncertainty. The U.K. still remains a core market for U.S. foreign direct investment (FDI) and is the largest European market for all U.S. goods and services.

Overall, American firms have invested \$600 billion in the U.K. (representing 12 percent of total global U.S. FDI). This makes the U.S. the U.K.’s largest single investor.

These numbers present a powerful case for the U.K. as a highly attractive new market for any business eyeing global expansion.

However, before setting up a business in the U.K., it’s imperative that business leaders fully explore these ten challenges and considerations that apply to this market.

## **1. REGISTERING A COMPANY IN THE U.K.**

New entities in the U.K. must register with Companies House, which is the U.K.’s official registrar of companies, an executive agency and a trading fund of the British government. Once all documents are submitted, registration with Companies House can be concluded in as little as two days.

New firms must also register with HM Revenue and Customs (HMRC), the U.K.’s tax, payments and customs authority. Registration for corporation tax must be completed within three months of the start of business operations. Though the paperwork is reasonably limited, specific statutory documents must be filled out and submitted in order to complete this process in a timely fashion.

## **2. TAX RATES**

The U.K.’s corporate tax rate (19 percent) is among the most competitive in Europe and tied for lowest among G20 nations. While already attractive, this rate is scheduled to drop to 17 percent in 2020. (There is one exclusion—ring fence profits, which are profits generated through the extraction of oil within the U.K.)

*continued on page 2*

The U.K.'s Value Added Tax (VAT) is currently set at 20 percent and is assessed on most goods and services within the country (including imported goods in some cases).

Tax incentives are also in place to encourage overseas investment and expansion. One example are research and development (R&D) incentives, which are primarily targeted at small to mid-sized firms. These firms can, in some cases, qualify for a 230 percent enhanced deduction for R&D expenditures.

While the U.K.'s tax policies are market-friendly, it should be noted that the nation's tax system is challenging to navigate. On average, a medium-sized business will spend 110 hours preparing, filing and paying taxes each year, which can be a significant burden.

### 3. KYC BANKING REQUIREMENTS

The U.K., and Europe as a whole, have relatively strong "Know Your Client" (KYC) rules governing the creation of new financial accounts. As a result, it often takes an extended period of time to set up bank accounts after a setting up a new business entity in the U.K.

This is mitigated somewhat, by the U.K.'s flexible approach to registration. Bank accounts are not required before a new business entity can be registered in the U.K., a common requirement in many other jurisdictions.

### 4. AN ENTREPRENEUR-FRIENDLY CLIMATE

The U.K. has gained a well-deserved reputation for being accommodating to new businesses, cultures and entrepreneurs. This attitude is reflected in a new policy enacted by the U.K. government that offers U.S. business owners access to special entrepreneur visas and lower tax rates.

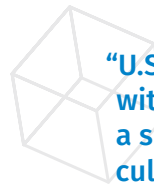
Under this program, the capital gains tax rate is pegged at 10 percent for the first £10 million in sale value, exactly half as high as the standard 20 percent corporate tax rate.

As a result of these incentives—and London's status as a global business hub—the U.K. has seen robust growth in a variety of sectors, including fintech, healthcare, energy and manufacturing.

### 5. CONSISTENT REGULATORY OVERSIGHT

While excessive regulation can hamper growth and innovation, a lack of regulation can lead to uncertainty and

instability. The U.K. aims to thread this needle by providing consistent regulation across a number of key sectors (financial services, consumer law, etc.). All businesses operating inside the U.K. are subject to some form of regulatory oversight.



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Because failing to comply may result in significant fines and penalties, it's imperative to perform due diligence and seek advice when aiming for compliance with local laws and regulations. Some of the more important compliance areas on which to focus include consumer laws, competition and export controls.

### 6. DATA PROTECTION STANDARDS

The EU's General Data Protection Regulation (GDPR), which came into force in May 2018, gives the U.K. and other member states the world's most robust privacy protections. GDPR was designed to protect consumers by modernizing data protection laws and establishing a stronger standard that companies must meet.

Non-compliance penalties established by GDPR are significant—up to \$20 million euros, or four percent of the company's prior year turnover, whichever is greater.

Should the U.K. drop from the EU following Brexit negotiations, many GDPR rules would still apply, as the U.K. passed its own, nearly identical version of the law in order to maintain continuity. If Brexit occurs, citizens are still protected by the same data protection rules, to which businesses must still adhere.

One note: There may be changes for businesses that transmit data between the European Economic Area and the U.K., though these will not be made clear until Brexit negotiations conclude.

### 7. REGISTRATION RULES AND TIMEFRAMES

It takes, on average, six procedures and 29 days to register a property within the U.K., according to the World Bank. This

*continued on page 2*

makes the registration process one of the more arduous processes associated with setting up a business in the U.K.

Businesses must also register any unregistered land or property at the time of ownership, or when choosing to mortgage that land or property. (Note: Only 10 to 15 percent of U.K. land remains unregistered as of 2019.)

While registering property isn't always required, voluntary registration does confer a variety of benefits. It establishes ownership, protects owners from fraud and eliminates a significant hurdle when attempting to sell, give away or otherwise change the status of the property.

### 8. INTELLECTUAL PROPERTY STANDARDS

Much as in the U.S., intellectual property protections are vigorous in the U.K. Enforcement mechanisms and legal standards are highly similar in both countries. It should be noted, however, that Brexit may affect IP laws in Britain.

Should the U.K. depart the EU, IP laws will change, impacting copyrights, patents, trademarks, designs and so on. Businesses that are involved in the secondary trading of IP-protected goods between the European Economic Area and the U.K. should monitor these potential changes closely. This applies equally to firms that use cross-border services that involved copyrighted content.

As noted above, full clarity on this issue will not be at hand until the final terms of Brexit negotiations are known.

### 9. EMPLOYER OBLIGATIONS

Companies that wish to task a non-European person with establishing a new, overseas U.K. operation should secure a

sole representative visa for that individual. These licenses are generally granted for a term of three years.

Businesses must also shoulder the responsibility of paying employee taxes. In the U.K., this typically means implementing Pay As You Earn (PAYE) into normal payroll operations. Run by HMRC, PAYE is a national system for the collection of income tax and national insurance.

As of 2018, U.K. businesses without an existing pension plan must implement auto-enrollment pensions with minimum employee and employer contribution rates. This program is not part of PAYE, but rather runs in parallel.

### 10. CULTURAL CONSIDERATIONS

U.S. organizations will find much in common with the U.K. market—the same language, a similar legal system and a lot of shared cultural history. However, there are also some significant departures that you need to consider before starting a business in the U.K.

British corporate and organizational structure is still more hierarchical than what's typically seen in the U.S., and British professionals may seem reserved or understated while in work settings.

Additionally, the pace of negotiations in Britain can be somewhat slow, depending on the organization. U.S. companies should give this due consideration when pursuing transactions.

### LEARN MORE

If you're looking to start a business in the U.K., learn how CT can help you to better manage your [global compliance needs](#). Contact a representative at (855) 444-5358 (toll-free USA).