

# UK - the basics: tax, compliance and budgeting

## Taxation

### Companies – Corporation Tax

Small companies (<£300,000 profit)  
Tax fiscal year to 31st March 10: 21%  
Medium companies (£300,000-£1,500,000 profit):  
Approximately 29.75%  
Large Companies (> £1,500,000 profit):  
Tax fiscal year to 31st March 10: 28%

The bandings above will be divided by the number of connected companies within the worldwide group.

EG: Parent company outside UK, with one UK subsidiary only: small company tax rate will apply if profits are <£150,000.

### Employment taxes and costs

Employees will pay National Insurance (social security) and Income Tax on wages and salaries.

Income tax: financial year to 5th April 10:  
First £6,475 0%  
From £6,476 to £ 43,875 20%  
Over £43,875 40%

Employees National Insurance  
First £5,720 0%  
From £5,721 to £43,875 11%  
Over £43,875 1%

### Cost to employers

Employers pay an employers' national insurance contribution calculated as follows:  
Gross Salary - £5460 x 12.8%

## Pension contributions

If a UK company has more than five employees, a stakeholder pension scheme must be offered by the company to its employees. Under UK law, the company must match an employee's pension contribution. The minimum is 3%, maximum 6%.

EG: An employee contributes 5%, the company must match with 5%. An employee contributes 8%, the company must pay the maximum of 6%.

## Benefits in kind

### Company cars

Company cars are taxable as a benefit in kind as an addition to the salary of the employee. Employees will be taxed to income tax based on a % (from a sliding scale based on CO2 emissions of the vehicle) of the list price of the car when new.

The company will be subject to employers national insurance of 12.8% on the amount calculated above.

### Fuel for company cars

If the company pays for all fuel for the car, there will be a further benefit in kind calculated as £16,900 x % calculated above (08/09 tax rates). This will also be chargeable to employers national insurance.

### Use of an employees own car

Where an employee uses their own car for business purposes, the company can pay a mileage allowance to the employee with no tax consequences. This is 40p per mile for the first 10,000 miles and 25p per mile thereafter. Employees must keep a log of all business mileage.

# VAT

The UK VAT rate is 15% until 31st December 2009.

## Registration

Companies must register for VAT if their annual turnover is above £67,000 per annum. In most circumstances, a business trying to enter the UK market will register for VAT immediately.

## Administration

VAT is accounted for quarterly, and returns must be submitted and any liability paid to Her Majesty's Revenue and Customs (HMRC) by the end of the following month. The return will show VAT charged on sales by the company, less VAT suffered on purchases made by the company.

## Trading within the EU

Trading in goods and services within the EU requires different types of reporting from trading with partners belonging outside of the EU; there are no customs duties chargeable on goods moving within the EU, and for the most part there is no VAT chargeable on business to business transactions (with some exceptions). However, in their place are mandatory statistical reporting requirements which must be strictly adhered to, to avoid potentially severe penalties and disruption of trade

Import duty

Is chargeable on goods entering the UK from outside the EU. Please see the following HMRC website that gives guidance on duties chargeable:  
[http://ec.europa.eu/taxation\\_customs/dds/tarhome\\_en.htm](http://ec.europa.eu/taxation_customs/dds/tarhome_en.htm)

## Transfer pricing

There are rules governing the transfer price to be used when goods are sent by connected companies to a UK company for resale, or for use in manufacturing. It is advisable to seek professional assistance in determining any transfer pricing policy. Please contact us for further details – our international team will be able to help you.

# Research and Development

R&D tax credits are available on qualifying expenditure. For small and medium sized businesses, tax credits of 175% (130% for large businesses) will be applied to qualifying expenditure which is deductible from profits for corporation tax purposes. Rates are currently 150% (125%), start date for 175% is unconfirmed at this time.

EG: R&D expenditure £100,000, deduction for corporation tax purposes £175,000.

Tax legislation provides for this tax credit until April 2009, but this may be extended in future budget announcements.

It is advisable to seek professional assistance in determining whether R&D activities are 'qualifying' activities within HMRC guidelines. Please contact us if you need assistance.

# Year end compliance

## Statutory accounts

Accounts for the UK company (or Branch) prepared in statutory format (per the Companies Acts) must be prepared and filed with the UK Registrar of Companies within 10 months of the company's year-end.

## Audit

A UK company requires an audit if UK turnover is more than £6,500,000 or worldwide group turnover is more than £7,800,000

## Corporation Tax (form CT600)

A Corporation Tax return must be completed and any liability due must be paid within 9 months and 1 day of the company's year-end.

## Employers annual returns

An annual return form (P35) must be completed after each financial year, and must be filed with HMRC by 19th May following the end of the financial year.

## Forms P11D – benefits in kind

Forms P11D must be completed for any employee receiving any benefits in kind or expenses paid by the company to the employee.

# Money laundering regulations

The UK is subject to strict money laundering rules. In order to set up a UK bank account or engage with any professional adviser, as a minimum, each director of the UK company will be expected to provide the following:

## Photo ID (passport or driving licence)

Utility bill, in their name, at their home address  
This may be extended to parent company directors, and ultimate owners of the business. UK banks may require copies of directors personal bank statements and further details of the parent company operation

Where these are not presented in person, copies will need to be provided which have been notarised. Copies must be provided to each adviser or bank.

# Setting up in the UK

## UK limited company or branch?

Each business is different, and may need to seek advice from a UK taxation adviser in respect of corporate structure before setting up the UK business. Please contact us if you need assistance, our international team will be able to help you.

Once the decision has been taken to invest in the UK, registering a UK private limited company or branch will be the first action required.

## UK private limited company

Money laundering regulations do not apply to this process, and it is quick and easy to complete.

The minimum share capital investment required by the parent company is one share. The share value is normally £1 per share.

Statutory accounts will be filed at the end of each year in respect of the UK company only.

## UK branch

Information in respect of the parent company has to be filed on UK public record if a UK branch is set up.

A UK branch is subject to UK Corporation Tax on its profits in the same way as a UK registered limited company, but must file the accounts of the parent company on UK public record, rather than the statutory accounts of the UK business.

## Incorporation certificate

Once the company is registered with the registrar of companies, an incorporation certificate will be issued, which will be needed in setting up a UK bank account.

## Registered office

The company must have a designated registered office, where any legal documentation can be sent, and where the company's statutory records must be kept.

This may be different to the business trading address.

# Budgeting for your start up costs

## Sales staff

As a basic guide, salaries range from £20,000 per annum to £50,000 per annum depending on the level and quality of sales staff required.

Remember to add on 18% to gross salary costs to account for employers' national insurance and pension contributions.

If staff are hired via a recruitment firm, fees will be levied of between 15 and 30% of gross salary.

## Property costs

Please seek advice from Northamptonshire Enterprise Limited's Inward Investment team regarding best positioning for the UK business, and property leasing/purchase costs in the Northamptonshire area.

## Outsourced accounting and payroll services

Your accounting and payroll function in respect of the UK entity can be outsourced.

Costs for completion of bookkeeping, management accounting and preparation of VAT returns can be very low each month, depending on the volume of transactions and quality of reporting required.

Please contact us for further assessment of these costs.

If you need further clarification on any of the points outlined in this leaflet, please do not hesitate to contact us:

Emma Hanson - +44 (0) 7800 617191  
[emma.hanson@tenongroup.com](mailto:emma.hanson@tenongroup.com)

Paul Pownall - +44 (0) 7800 617122  
[paul.pownall@tenongroup.com](mailto:paul.pownall@tenongroup.com)

Tenon are a leading provider of accounting and business advice to entrepreneurs, owner-managed and private businesses.

Our services cover:

- Audit
- Tax – corporate, international and personal
- Financial Services
- Corporate Finance
- Outsourcing
- Recovery
- Forensic

## For further information

The information above has been kindly supplied by Tenon outsourcing. The content of this newsletter is for general information only. It should not be relied on and action which could affect your business should not be taken without appropriate professional advice. Please contact your usual Tenon contact or local Tenon office.

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