DFK International

Doing Business in United Kingdom

2017

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DOING BUSINESS IN THE UNITED KINGDOM

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in the United Kingdom.

1 BACKGROUND

1.1 Country overview

The United Kingdom (”UK"), comprising of England, Scotland, Wales and Northern Ireland covers approximately 240,000 square km and for classification purposes its climate is rated as mild and temperate. The UK lies off the northwest of mainland Europe and at its closest point is about 20 miles (32 km) distance. The national language is English.

The UK is part of the European Union (EU), which comprises 28 Member States. In common with a number of other EU Members, it has not joined the “Eurozone” in which a common currency, the Euro (€) is used. The UK currency remains £ Sterling.

In June 2016, the UK held a referendum and decided to leave the EU. The withdrawal process began in March 2017, with the UK expected to leave by April 2019.

The population of the UK is approximately 65 million people, 57 million of whom are located in England and Wales.

The courts and the judicial system are independent of the legislature (Parliament) and Government.

1.2 Economic overview

The UK is considered to be Europe’s leading business centre, while the City of London has long been the EU’s financial centre.

Interest rates fell to 0.25% in August 2016 and currently remain at this rate (May 2017), their lowest level since 1684.

The UK does not impose exchange controls and has a free market economy with few restrictions.

1.3 Transport infrastructure

The UK has a strong transport infrastructure with a relatively large motorway network for road transport between key commercial centres to air and seaports; there is also an extensive rail network. Every location within the UK is within 100 miles of a container port. Air travel continues to develop within the UK through a strong network of regional airports. The UK also has four "Gateway" airports – Heathrow and Gatwick in London, Manchester in the north of England and Glasgow in Scotland. Stansted and Luton are also extensively used being relatively close to London.

1.4 Business environment

According to the World Bank, it takes just 13 days to set up a business in the UK compared to the European average of 32 days. The UK's open, transparent and business friendly system makes it easy to start up a new company and there are no separate rules for overseas companies to operate in the UK.

2 CHOICE OF LEGAL FORM

There are two principal forms of business organisation in the UK; corporate bodies such as companies, and unincorporated ventures such as sole traders and partnerships.

2.1 Companies

Generally, companies have a legal identity separate from their members. The liability of the members (shareholders) is limited to the amount of the par value of their shares. If the shares have been acquired as fully paid then the members will have no additional liability for debts of the company. No management board is required, although at least one director is required for a private company, at least two for a public company. The directors need not be shareholders, nor do they need to be resident in the UK (however, there may be tax implications if this is the case).

The directors of companies are employees of the company and are normally paid salaries; shareholders benefit from the profits made by the company through the payment of dividends. If a shareholder is also a director he can choose to some extent between dividends and salary.

Companies are formed under the Companies Act and must file their accounts:

- with the Registrar of Companies within nine months of their year-end (private companies) or six months (public companies)
- with the UK tax authorities (HMRC) within 12 months of their year-end.

Companies are also required to file details of their directors and other key documentation with the Registrar of Companies at Companies House on incorporation and by means of a confirmation statement.

All documents filed with the Registrar of Companies are publicly available and may be obtained by any individual or business, subject to payment of a fee.

Companies will normally prepare accounts for a 12-month period, and they can choose the date on which this period ends. They must have an address in the UK referred to as the "Registered Office" where legal documents can be sent by post or delivered. It need not be the same as the business address.

2.2 Private companies

A private company is one which cannot issue shares to the general public. In most private companies the shareholders and directors are the same people. The company has 'Limited' after its name, commonly shortened to 'Ltd'. In the UK, out of approximately 2,500,000 companies, 99 % are private companies, and of these the great majority have five or fewer shareholders.

2.3 Public limited companies

Public limited companies may make their shares available to the public at large and their shares can be traded on the various securities markets. Public limited companies are denoted by the letters "plc", "Plc" or "PLC" at the end of their name. These companies are subject to greater regulation than privately owned companies. In particular, they are subject to substantial regulations concerning corporate governance including such matters as the appointment of non-executive directors.

The minimum share capital for a PLC is £50,000, of which 25% must be paid up. The minimum number of directors is two and a PLC also requires a suitably qualified company secretary. There must also be at least two shareholders.

2.4 Subsidiaries

A limited liability company does not need to be a stand-alone company but can be part of a group. The shares in a UK Company can be owned by an overseas person. If a company owns more than 50% of the shares in another company, or controls the members' voting

in that company, the first company is known as a holding (or parent) company and the second a subsidiary.

2.5 General partnership

A partnership involves two or more people carrying on a business in common. Most partnerships are unlimited liability ventures with all partners having joint and several liabilities for the debts of the business. Any business debts may be recoverable from partners' personal as well as business assets. Personal debts may be recovered against a partner's individual share of the business. A Partnership Agreement will usually set out the rights, responsibilities and rewards of the partners.

Accounts for the partnership do not have to be filed with the Registrar of Companies. The partners can choose the date of the end of the accounting period.

2.6 Limited liability partnership

Traditionally, under UK law a partnership does not have a legal identity separate from that of its members. However, since 2001, it has been possible to form a Limited Liability Partnership (LLP). A LLP provides the members with their personal liability limited to the capital they subscribe, except for matters of fraud or negligence. The partners have the same financial protection as members of limited companies but with the flexibility in internal affairs of a partnership.

A LLP must be registered with the Registrar of Companies. It must file accounts and other information for the public record in the same manner as a limited company.

It is most commonly used for professional services such as accountants and lawyers and for property transactions.

2.7 Limited partnership

A limited partnership consists of one or more "general" partners, who are liable for all debts and obligations of the firm and one or more persons called "limited" partners, who contribute a sum of money as capital. Limited partners are not liable for a partnership's debts beyond the amount they have contributed.

A limited partnership must be registered under the UK Limited Partnership Act 1907 and has to have its main place of business in the UK.

In most other respects a limited partnership operates the same way as a general partnership.

2.8 Sole proprietorship

A sole trader is an individual carrying on business on his own account. Any debts, whether business or personal, can be recovered against business and personal assets.

Accounts for a sole trader do not have to be filed for public record. A sole trader can choose the date of the end of his accounting period.

2.9 Overseas legal entities

An overseas business wishing to commence operations in the UK does not need to set up a company or partnership in the UK. As an alternative, it can set up a "UK establishment". A UK establishment usually takes the form of either a "place of business" or a branch. A UK establishment needs to be registered with the Registrar of Companies.

A place of business, such as a representative office, may not itself be carrying on business activity in the UK, or if it does it may be merely ancillary or incidental to the parent's overseas activity, and therefore may not give rise to a taxable presence in the UK. A branch will generally be a self-contained UK operation, albeit acting within its overseas parent, and profits attributable to the branch will normally be fully subject to UK tax.

2.10 Joint venture

An overseas company can join with a British company in a Joint Venture. There are a number of ways that such a joint venture can be formed, including a separate JV company, an LLP or another type of partnership vehicle.

2.11 Trust

The key feature of a trust in UK law is the separation of legal and beneficial ownership. The trustees are the legal owners of the trust property but the beneficial owners are the beneficiaries. The trustees are bound to administer and manage the trust property for the benefit of the beneficiaries. A trust document must be irrevocable and is usually evidenced in writing. Provided that certain basic conditions are fulfilled, it will be legally binding.

Non-profit organisations in the UK, such as charities, usually have the legal form of a trust or of a private company without a share capital but limited by guarantee.

3 AUDIT REQUIREMENTS

3.1 Requirement and thresholds

All companies incorporated under the Companies Act must be audited unless they qualify for exemption. To qualify for total audit exemption a company must meet two or more of the following three criteria:

- annual turnover of not more than £10.2 million;
- assets worth no more than £5.1 million; and
- 50 or fewer employees on average.

Where a company is part of a group, the above thresholds apply to the aggregate of the group's turnover, assets and employees.

Limited companies meeting the exemption criteria may still choose to have an audit in order to provide assurance to shareholders and other interested stakeholders.

In certain circumstances 10% or more of the shareholders in any company exempt from audit may require the company to have an audit.

In addition, the Companies Act 2006 requires certain companies to have an audit even if they would otherwise have qualified for exemption, including:

- public limited companies;
- subsidiary companies (unless qualifying for an exception);
- companies involved in banking, insurance and certain investment activities.

Members of groups that contain any of these types of company will also require an audit.

A company is required to prepare accounts for the shareholders showing a "true and fair view" and complying with all necessary regulations even if they do not require an audit.

4 TAXATION

4.1 Corporation tax

Companies are subject to corporation tax on their total taxable profits (including capital gains). The rates of corporation tax are set annually for the tax year commencing on 1 April. The corporation tax rate for the year commencing 1 April 2017 is 19%.

From 1 April 2020, the corporation tax rate will fall further to 17%.

Corporation tax is payable once a year nine months after the end of the accounting period, unless the company is 'large' (i.e. one whose annual profits exceed £1.5million). A large company must pay corporation tax in quarterly instalments commencing 6 months and 14 days into the company's accounting year. From 1 April 2017, very large companies (i.e. those with taxable profits exceeding £20million) are required to make quarterly instalments commencing 2 months and 14 days into the company's accounting year.

4.2 Dividends

UK and foreign dividends received by UK companies are generally exempt from UK tax, though the specific exemption criteria should be reviewed in each individual case.

Dividends paid by a UK company are not subject to any withholding tax.

4.3 Branches

The profits of a UK branch of an overseas company are liable to tax at the same rates of corporation tax as a domestic company. The UK does not impose withholding tax on profits transferred by a UK branch to its head office.

A UK company with overseas branches is generally liable to UK corporation tax on the profits of those overseas branches (with a credit given for some or all of any foreign taxes paid on those profits). However, a UK company can elect to exempt its foreign branches from UK tax. Once made, the election is permanent and will apply to all of the company's overseas branches.

4.4 Losses

A company's trading losses can be used in the following ways:

- set off against total profits (from any source and including capital gains) in the year of the trading loss;
- carried back against total profits of the previous year; or
- carried forward and offset against future profits from the same trade.

There are anti-avoidance provisions in place that restrict the ability to carry forward losses in certain circumstances, normally associated with a change in ownership of the company coupled with a change in the nature or conduct of the trading activity.

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It was expected that new loss relief rules were to be implemented from 1 April 2017 such that only 50% of profits in excess of £5 million would be capable of offset in an accounting period by brought forward losses, although there would be a relaxation that carried forward losses can be offset against all profits. These proposals were however removed from Finance Bill 2017 (due to the decision to hold a snap general election in June 2017). It is expected that the implementation of these proposals will occur at a later date.

4.5 Group taxation

Profits and losses arising in the same period can generally be offset between UK companies that are 75% members of the same worldwide group. In limited circumstances, losses of an EU group member may be offset against a UK group company's profits. Intra-group transfers of assets between UK group companies are normally tax-neutral. Group companies can generally elect to account for VAT as if they were a single entity.

4.6 Controlled foreign companies ("CFC")

A company which is resident outside of the UK but in which a UK company has a 40% or more shareholding is potentially a CFC. A CFC charge arises if the CFC has chargeable profits and no exemptions apply. The exemptions include CFC's with low profits or low profit margins, those which are resident in a territory on the "good list" and those where the local tax could be 75% or more of the corresponding UK tax on these profits. The rules are generally targeted at the artificial diversion of profits from the UK in cases where the CFC has little or no underlying commercial substance.

4.7 Notification

When a company first comes within the scope of UK corporation tax it is required to notify HMRC in writing within three months of the start of its accounting period. Penalties apply for non-compliance.

4.8 Thin capitalisation

Thin capitalisation is dealt with as part of the UK's transfer pricing regime. This can apply to limit the tax deduction for interest where the rate of interest, the amount borrowed, or the terms on which it was borrowed, were significantly different to what might be expected at arm's-length.

In addition, UK members of large groups may be subject to a ‘worldwide debt cap’ test. Broadly, the purpose of the worldwide debt cap test is to limit the tax deduction for interest and other finance costs of UK companies in large groups to the external interest and other finance expenses of the group as a whole. The worldwide debt cap only applies to groups that have 250 employees or more and either; an annual turnover exceeding €50million, or a balance sheet asset total exceeding €43m.

It had previously been announced that legislation was to be introduced from 1 April 2017 that would have limited the interest expenses that can be offset against profits of UK companies/ groups to 30% of a group’s earnings, with a de minimis group threshold of £2 million net UK interest expense. At the same time the “worldwide debt cap” rules would have been repealed. However, these proposals were also removed from Finance Bill 2017 and are expected to be implemented at a later date.

4.9 Transfer pricing rules

The UK imposes an arm’s-length pricing standard for transactions between companies and related parties. A company is required to self-assess any transfer pricing adjustment as part of its general corporation tax self-assessment process. Penalties may apply for failure to maintain adequate records to justify arm’s length prices. In matters of transfer pricing the UK generally follows the OECD’s transfer pricing guidelines.

The rules apply to transactions where the related parties are both in the UK, as well as to transactions where one of the related parties is located overseas. Thin capitalisation issues are dealt with under the transfer pricing code.

Small and medium sized enterprises are normally exempt from the UK transfer pricing regime, unless the other party to the transaction is located in, broadly, a tax haven.

4.10 Personal income tax

Individuals are assessed to income tax based upon their income within the tax year. The UK tax year runs from 6 April to 5 April. The rates of income tax for the tax year beginning 6 April 2017 are as follows:

Taxable Income	**Rate of Income Tax**		
	General	Interest	Dividends
£0 - £5,000	20%	0%*	0%

£5,001 - £33,500	20%	20%	7.5%
£33,501 - £150,000	40%	40%	32.5%
Over £150,000	45%	45%	38.1%

* The 0% rate is not available if taxable non-savings income exceeds £5,000. In addition, there is a personal savings allowance of £1,000 for basic rate (20%) taxpayers. For higher rate (40%) payers, the allowance is reduced to £500.

Individuals who are UK resident are entitled to an annual personal tax free allowance, which is deductible from total income. The standard personal allowance for the tax year 2017/18 is £11,500. Individuals who are not UK resident but are resident elsewhere in the EEA are also entitled to a UK personal allowance, as are certain residents and nationals of territories with which the UK has a double tax treaty with the appropriate provisions.

An individual's liability to income tax is based on their tax residence and domicile. For employees and the self-employed (including members of a partnership), the place where work is carried out can also be relevant. A statutory test applies for determining the residence status of individuals, which replaced the previous mixture of case law and HMRC practice.

Personal tax is self-assessed by reference to the tax year ending on 5 April and individuals are obliged to submit an annual tax return to HMRC. The 5 April date originates from the switch by the UK from the Julian to the Gregorian calendar in 1752.

In general, an individual who is UK resident for tax purposes is liable to UK income tax on their worldwide income from all sources. This is subject to the provisions of any applicable double tax treaty.

Individuals who are UK resident but not UK domiciled benefit from a different treatment. 'Domicile' is an English law concept and, broadly speaking, an individual has his domicile in the country that is his 'real' or permanent home which, if he has left it, he intends to return to. An individual who is UK resident but not UK domiciled can make a claim to be liable to UK tax on his non-UK income and gains only when they are remitted to (received in) the UK. This principle is commonly referred to as the 'remittance basis'.

Non-UK domiciled individuals who are long-term UK residents must pay an annual charge if they wish to continue to have the benefit of the remittance basis. The annual charge for a non-UK domiciled individual who has been resident in the UK for at least seven of

the previous nine tax years is £30,000; where the individual has been resident in the UK for at least 12 of the previous 14 tax years the annual charge is £60,000. It is not mandatory for an individual to pay this annual charge, but if they choose not to they will be liable to UK tax on their worldwide income and capital gains in the same way as a UK resident and domiciled individual. Once an individual has been resident in the UK for more than 15 out of the last 20 years, he will no longer be entitled to the remittance basis. Non-UK domiciled individuals who are or intend to become resident in the UK are strongly advised to take advice; whilst the remittance basis rules can be complex, there are often significant tax planning opportunities.

Partnerships are normally treated as transparent for UK tax purposes. While a partnership tax return is required to be filed with HMRC, Partners who are individuals report their share of the partnership's profits or capital gains on their personal income tax return.

4.11 Capital gains tax (CGT)

CGT is payable on capital gains made on the disposal of chargeable assets. A disposal takes place whenever the ownership of an asset changes and includes a part-disposal. Gains and losses are computed by comparing the disposal proceeds with the cost of the asset plus any qualifying expenditure incurred on enhancing the asset. Where the parties are connected, market value is substituted for any actual consideration paid.

Capital losses can generally only be set off against capital gains.

UK resident individuals are taxed on capital gains in excess of their CGT annual exempt amount (£11,300 for 2017/18) at either 10% or 20% depending on the total taxable income and gains of the individual during the tax year in which the disposal arose. Gains on the disposal of residential properties are however subject to rates of 18% or 28%.

Individuals who are UK resident but not UK domiciled are generally only liable to UK tax on non-UK capital gains if they are remitted to (received in) the UK. This principle is commonly referred to as the 'remittance basis'. Non-UK domiciled individuals who are long-term residents of the UK may be required to pay an annual charge to continue to have the benefit of the remittance basis – see the section 'Personal income tax'.

Certain disposals by individuals of businesses, business assets or shares in a trading company may qualify for a CGT rate of 10% under the entrepreneurs' relief provisions, provided certain conditions are met.

Capital gains made by UK companies are taxed at normal corporation tax rates. For companies only, the amount of gain is reduced by 'indexation allowance', which is aimed

at eliminating the element of the gain attributable to the effect of inflation on the value of the asset.

Disposals by a UK company of shareholdings of 10% or more in trading companies may qualify for exemption from tax under the Substantial Shareholding Exemption provided certain conditions are met.

The general rule is that non-UK residents are not liable to CGT on gains made on UK assets. However, for disposals of UK residential property made by non-resident persons (including companies), a non-resident capital gains charge (NRCGT) may be due. Non-resident individuals are subject to NRCGT at either 18% or 28%. Non-resident companies are subject to tax at 20%. This NRCGT charge only applies to gains arising since 5 April 2015 i.e. the property will be rebased to its 5 April 2015 market value.

In addition, capital gains made by "non-natural persons" (broadly, companies) on disposals of high value residential property in the UK (valued at £500,000 or more) will be liable to CGT at a rate of 28%. Certain exemptions and reliefs may apply and where a property is subject to both a NRCGT and a "non-natural persons", the latter takes priority. This charge only applies to the part of the gain accruing after April 2013.

CGT can also arise on gains made by a non-resident person carrying on a trade in the UK through a branch or agency, on the disposal of UK assets used in the trade. Similar provisions apply for a non-resident company carrying on a trade in the UK through a permanent establishment although the tax due would be corporate tax.

4.12 Stamp duty

Stamp Duty of 0.5% of the consideration is payable by the purchaser on the transfer or sale of shares or marketable securities in UK companies.

Stamp Duty is not chargeable on transactions for shares quoted on certain growth markets such as the London Stock Exchange's Alternative Investment market ('AIM').

4.13 Stamp duty land tax (SDLT)

SDLT is payable by the purchaser on transactions in land and buildings situated in England, Wales or Northern Ireland. A separate regime, Land and Buildings Transaction Tax, applies to land and buildings situated in Scotland. The rates of SDLT from April 2017 are:

Residential property *		Non-residential property	
£0 - 125,000	0%	£0 - 150,000	0%
£125,001 - 250,000	2%	£150,001 - 250,000	2%
£250,001 - 925,000	5%	Over £250,000	5%
£925,001- 1,500,000	10%		
Over £1,500,000	12%		

Where a purchaser of residential property already owns another residential property, there will be an additional 3% SDLT due (in addition to the rates shown above).

Also, a 15% SDLT rate applies to the total purchase consideration where a "non-natural" person e.g. a company, acquires residential property for consideration of more than £500,000. Reliefs are available however where, for example, the company acquiring the property is a property developer.

4.14 Annual tax on enveloped dwellings

An annual tax is payable by non-natural persons (broadly, companies) owning residential property in the UK valued at £500,000 or more. The amount payable depends on the value of the property, but ranges from £3,500 to £220,350. Certain exemptions and reliefs may apply.

4.14 Value added tax (VAT)

VAT is levied at every stage of the sale and purchase of goods and services within the UK and the EU. All businesses with an annual turnover in excess of £85,000 (as from 1 April 2017) must register for VAT. Broadly, a VAT registered business charges VAT on goods and services supplied to customers and can reclaim VAT charged on goods and services supplied to it.

The standard rate of VAT is 20%. Some supplies of goods or services are exempt from VAT and others may be subject to a zero or reduced rate of VAT.

VAT registered businesses must account for VAT by completing and submitting a quarterly VAT return form. The return is used to calculate the difference between VAT chargeable on supplies made by the business and VAT on supplies made to it. The difference results either in a refund or a payment to be made.

4.15 Sales taxes

The UK does not generally impose taxes on sales (other than VAT).

4.16 Local taxes

There are no local taxes on income, capital gains or wealth.

However, local taxes are levied on the occupiers of property. Business rates are calculated by reference to a deemed annual rental value of the property and are deductible from the business's taxable income. The local tax on residential dwellings (Council Tax) is based on the 'capital value' of the relevant building as at 1 April 1991 and is payable by the occupier of the property.

4.17 Tax treaties

The UK has entered into Double Tax Agreements with around 140 countries. A list is provided as an Appendix.

5 ALLOWANCES

5.1 Depreciation

Depreciation charged in the accounts is not generally an allowable deduction for tax purposes. Instead, tax depreciation is given through a system known as capital allowances.

Most businesses are eligible for an Annual Investment Allowance (AIA), the amount of which is £200,000 with effect from 1 January 2016. Expenditure on plant and machinery up to the amount of the AIA qualifies for a 100% tax write-off.

Expenditure on plant and machinery not covered by the AIA and on certain other types of capital assets may qualify for an annual writing down allowance of between 8% and 18%, the rate of which varies according to the type of asset. For most plant and machinery not covered by the AIA, the annual rate for writing down allowance is currently 18% (calculated on a reducing balance basis).

It is not mandatory for a business to claim capital allowances.

A special form of tax amortisation may be available to companies in respect of expenditure incurred on certain intangible assets (including goodwill). However, the rules are complex in relation to this area and have undergone recent change. Broadly, amortisation of intangible assets acquired before 1 April 2002 or after 8 July 2015 will not be deductible for tax purposes.

5.2 Other investment allowances

- A 100% tax write-off in year one is available for expenditure on certain environmentally friendly equipment and machinery.

- Various grants and subsidies are available to set up businesses in areas in need of regeneration.

- Enhanced tax deductions are available for qualifying expenditure by companies on R&D. For small and medium companies (as defined) the uplift is 130%, giving a tax deduction equal to 230% of the expenditure.

- From 1 April 2013, a new R&D scheme was introduced for large companies. A feature of the new scheme is that large companies which have trading losses can claim a cash credit from HMRC of roughly 9% of the qualifying R&D expenditure.

- If a small or medium company makes a trading loss in a period in which it has claimed enhanced R&D tax deductions, it may surrender part of the loss in exchange for a tax credit payable in cash by HMRC. From April 2014, the maximum amount of cash payment that can be claimed is 14.5% of the uplift R&D expenditure.

- Creative sector tax reliefs are available for expenditure by companies on high-end TV programmes, animation programmes, certain films, video games and certain theatre productions.

6 EMPLOYMENT

6.1 Social security

The principal social security tax cost in the UK is National Insurance (NI). NI is payable by both the employer and the employee on all earnings of the employee over a minimum level. The employer is responsible for collecting all NI contributions, including the employee contribution and paying them to HMRC, together with Pay-As-You-Earn (PAYE) tax deducted from payments made to the employees.

The rate of NIC payable by an employer on earnings over £8,160 pa is 13.8%.

The UK has a number of reciprocal social security agreements with other countries and employees seconded from those countries may be exempt from UK NI for a period of time.

6.2 Employment of foreign personnel

An employee's liability to UK income tax depends principally on his domicile and tax residence position and where the duties of his employment are carried out.

Careful advance planning is advisable, ideally before the individual comes to the UK, taking into account both income and capital transactions, if unexpected tax liabilities are not to arise.

6.3 Non-cash benefits

In addition to salary and bonus, an employer may provide additional benefits to an employee. This could include accommodation, a car and fuel, private medical insurance, shares in the company, share options, etc.

Employers are generally required to notify HMRC annually of each employee's total pay, benefits and expenses paid or reimbursed.

The rules concerning the provision of non-cash benefits can be complex and advice should be taken before they are provided. Some benefits can result in an income tax, and in some cases an NI, liability on the employee based on the value of the benefit. An employer's NI liability can also arise in some cases.

Some benefits, however, can be given in a tax-efficient manner including options over shares, mobile 'phone, childcare vouchers, relocation costs etc. These are all subject to conditions.

6.4 Payroll taxes

In addition to National Insurance the employer is responsible for deducting income tax from the earnings of each employee and paying this over to HMRC.

Income tax is withheld from wages, salaries and bonuses under the Pay-As-You-Earn (PAYE) system. The system progressively calculates tax on the basis of the total annualised rate of income that has been earned from the beginning of the tax year to the date of payment.

6.5 Employee pension schemes

Between 2012 and 2018, starting with the largest employers, a requirement is being phased in for every employer in the UK to provide access to and contribute to a pension scheme for its employees. Generally, employees are not subject to tax on payments into HMRC-approved pension schemes by their employer.

7 WITHHOLDING TAXES

7.1 Interest

Interest payable by a business is generally subject to deduction of basic rate (20%) income tax unless the recipient is a UK company or financial institution.

7.2 Royalties

Royalties on UK patents, copyrights, designs, trademarks, brand names and certain other qualifying annual payments are generally payable after deduction of basic rate (20%) income tax. Tax does not have to be withheld if the payer reasonably believes that the recipient is entitled to relief under the relevant double tax treaty.

7.3 Dividends

The UK does not impose withholding tax on dividends.

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7.4 Rents on UK real property

Rents paid to a non-UK resident landlord are subject to deduction of basic rate (20%) tax unless an application to have the rents paid gross under the 'Non-Resident Landlord Scheme' is accepted by HMRC.

7.5 Performers

Sportsmen, entertainers and other performers can be liable to UK tax on earnings from performances in the UK. Where they are, tax at the basic rate (20%) of income tax may be withheld from payments to them or their representatives.

7.6 Double tax Treaties

Reduced or zero rates of withholding taxes may apply under a double tax treaty if an appropriate claim is made and accepted by HMRC.

7.7 EU Interest and Royalties Directive

Payments of interest or royalties by a UK company to a company resident in another EU Member State may be made free of withholding tax under the EU Interest and Royalties Directive if conditions are met and an appropriate claim is made.

This document is provided as a general overview of matters to be considered when setting up an overseas business in the UK. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided in this publication.

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If you are setting up a business in the UK, the members of DFK International can help you to achieve this efficiently. You will receive practical advice on business issues, tailored to meet your objectives, from experienced business advisers.

For further information on the services available from the DFK member firms in the UK please contact:

Appendix – List of the UK's Double Taxation Agreements in force (as at May 2017)

Albania	Guernsey	Norway
Algeria	Guyana	Oman
Antigua and Barbuda	Hong Kong	Pakistan
Argentina	Hungary	Panama
Armenia	Iceland	Papua New Guinea
Australia	India	Philippines
Austria	Indonesia	Poland
Azerbaijan	Iran	Portugal
Bahrain	Ireland (Republic of)	Qatar
Bangladesh	Isle of Man	Romania
Barbados	Israel	Russia (Russian Federation)
Belarus	Italy	St Kitts and St Nevis
Belgium	Ivory Coast	Saudi Arabia
Belize	Jamaica	Serbia
Bolivia	Japan	Sierra Leone
Bosnia Herzegovina	Jersey	Singapore
Botswana	Jordan	Slovak Republic (Slovakia)
Brazil	Kazakhstan	Slovenia
British Virgin Islands	Kenya	Solomon Islands
Brunei	Kiribati	South Africa
Bulgaria	Kosovo	South Korea
Cameroon	Kuwait	Spain
Canada	Latvia	Sri Lanka
Cayman Islands	Lebanon	Sudan
Chile	Lesotho	Swaziland
China	Libya	Sweden
Colombia	Liechtenstein	Switzerland
Croatia	Lithuania	Taiwan
Cyprus	Luxembourg	Tajikstan
Czech Republic	Macedonia	Thailand
Denmark	Malawi	Trinidad and Tobago

Egypt	Malaysia	Tunisia
Estonia	Malta	Turkey
Ethiopia	Mauritius	Turkmenistan
Falkland Islands	Mexico	Tuvalu
Faroes	Moldova	Uganda
Fiji	Mongolia	Ukraine
Finland	Montenegro	United Arab Emirates
France	Montserrat	Uruguay
Gambia	Morocco	USA
Georgia	Myanmar (Burma)	Uzbekistan
Germany	Namibia	Venezuela
Ghana	Netherlands	Vietnam
Greece	New Zealand	Zambia
Grenada	Nigeria	Zimbabwe