COMPANY FORMATION

2024 Guide

INTRODUCTION

With a stable and well-established economy, favourable regulatory environment, and a highly skilled workforce, the United Kingdom keeps attracting businesses of all sizes and sectors. Offering a diverse consumer base and a range of tax incentives only underscores the potential benefits of the market for entrepreneurs.

Additionally, the UK's well-developed infrastructure, with exemplary transport links and communication systems, facilitates business operations on both domestic and international level.

In this eBook we shed some light on the most common business forms, corporate taxes, investment incentives, and other matters that may be interesting to entrepreneurs.

CONTENTS

LEGAL FORMS OF BUSINESS, MINIMUM CAPITAL, CONTRIBUTIONS

The legal forms of business introduced in the United Kingdom are as follows:

Private Limited Company (LTD)

Private Limited Company by Shares is the most common form of doing business in the United Kingdom. At least one shareholder is required for the establishment of an LTD. Moreover, it is also required to have at least one director, who may be the same as the shareholder.

There is no minimum capital requirement (other than at least one share must be issued on incorporation), and the initial share capital is commonly less than GBP 100. Those private companies that are small or medium sized businesses have the possibility to file modified (i.e., simplified) accounts at Companies House, rather than full accounts.

Companies Limited by Guarantee

Companies Limited by Guarantee require at least one guarantor and a 'guaranteed amount'.

Guarantors may be company members who control the company and make important decisions. They do not usually take profit from the company - instead the money is kept within the company or used for other purposes.

Guarantors promise an agreed amount of money to the company if it cannot pay its debts. This is called the 'guaranteed amount'. They must pay the company the full amount of their guarantee.

This payment covers guarantors for situations such as the company being closed down. The guaranteed amount is not linked to how much the company is worth - you choose how much they pay.

Other legal forms of business

There are 3 main types of business structures in the United Kingdom, and each has various tax and liability implications for owners and shareholders.

Sole trader

If you're a sole trader, you run your own business as an individual and are self-employed. You can keep all your business's profits after you've paid tax on them. You're personally responsible for any losses your business makes. You must also follow certain rules on running and naming your business.

Partnership

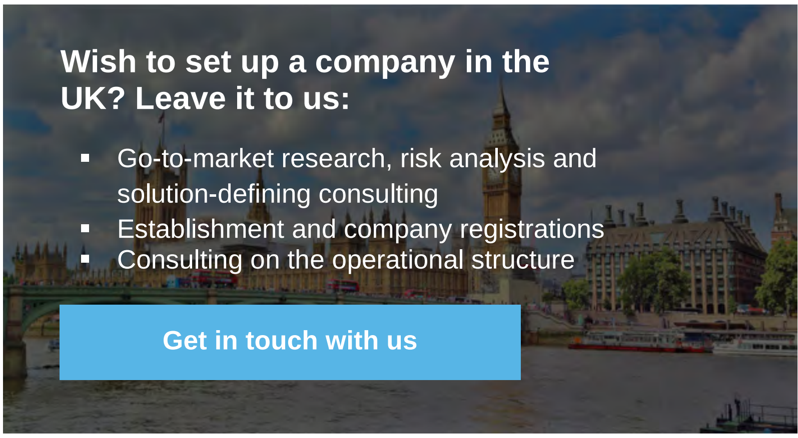
In a partnership, you and your partner (or partners) personally share responsibility for your business. This includes:

1. any losses your business makes
2. bills for things you buy for your business, like stock or equipment

Partners share the business's profits, and each partner pays tax on their share. But a partner does not have to be an actual person. For example, a limited company counts as a 'legal person' and can also be a partner.

Limited Liability Partnership

You can set up ('incorporate') a Limited Liability Partnership (LLP) to run a business with 2 or more members. A member can be a person or a company, known as a 'corporate member'.
Each member pays tax on their share of the profits, as in an 'ordinary' business partnership, but isn't personally liable for any debts the business can't pay actors.



MINIMUM DOCUMENTATION AND INCORPORATION TIME

The Limited Company is the most common legal form in use for running a business. Companies are 'incorporated' to form an entity with a separate legal personality. This means that the organisation can do business and enter into contracts in its own name. On incorporation under the Companies Act 2006, a company is required to have two constitutional documents:

- **The Memorandum**, which records the fact that the initial members (the subscribers) wish to form a company and agree to become its members. The Memorandum cannot be amended; and

- And **Articles of Association** – often just referred to as the Articles – which are essentially a contract between the company and its members, setting the legally binding rules for the company, including the framework for decisions, ownership and control. The Companies Act 2006 provides significant flexibility to draw up articles to suit the specific needs of the company, provided it acts within the law.

A Limited Company is owned by its members, those who have invested in the business, and as the name suggests they enjoy limited liability, i.e., the company's finances are separate from the personal finances of their owners and as a general rule creditors of the business may only pursue the company's assets to settle a debt. The personal assets of the owners are not at risk.

There are two mechanisms for company membership:

- **Company Limited by Shares**
  Most companies fall into this category. Members each own one or more shares in the company and are therefore known as shareholders. Shareholders' limited liability means that they only stand to lose what they have already invested or committed to invest (amounts unpaid on shares).

- Members of the **Company Limited by Guarantee** give a guarantee to pay a set sum if the company should go into liquidation.

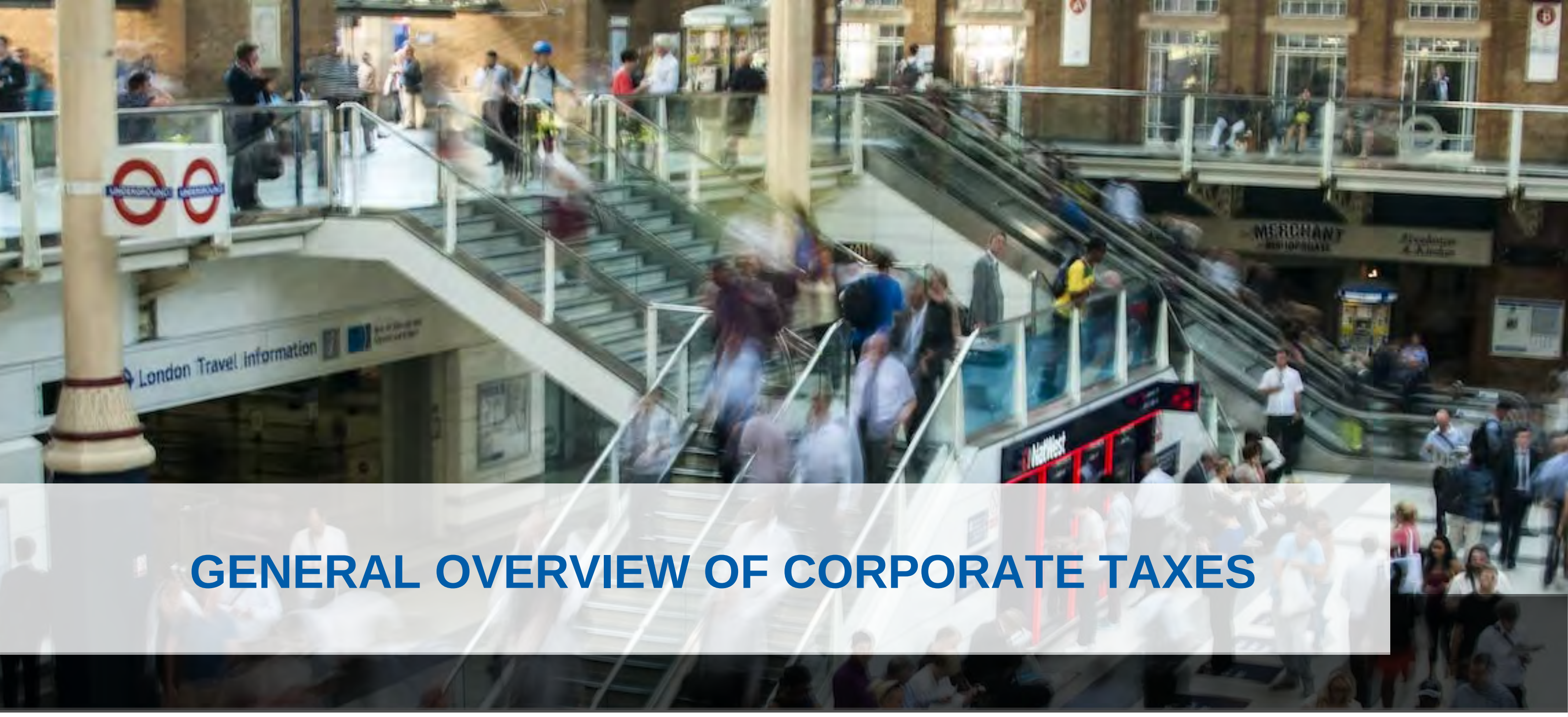
Online registration for a Limited Company can take as little as 24 hours.

Special requirements for foreigners

The nature of the UK Limited Company means it should have one director and one shareholder aged over 16, who can be responsible for all business liabilities. The same person can be both a director and a shareholder. The company should also have a UK registered office address. These are the only basic requirements for an overseas resident to register a UK company.

Special requirements for a non-UK legal entity

An offshore company is a company that is not incorporated in the UK, so while an offshore company can operate within the United Kingdom and create subsidiaries in the UK, it cannot own a UK company. If you own an offshore company, you can separately register a company as a non-British national.



GENERAL OVERVIEW OF CORPORATE TAXES

Corporate income tax

	Financial year 2020 to 2021	Financial year 2021 to 2022	Financial year 2022 to 2023	Financial year 2023 to 2024
Main rate	19%	19%	19%	25%
Small profits rate	n/a	n/a	n/a	19%
Lower threshold	n/a	n/a	n/a	GBP 50,000
Upper threshold	n/a	n/a	n/a	GBP 250,000

Corporate Income Tax is paid on profits from doing such business as:

- a limited company
- any foreign company with a UK branch or office
- a club, co-operative or other unincorporated association, e.g., a community group or sports club

In the United Kingdom, the tax period is the accounting period. The deadline for tax return filing is 12 months after the end of the accounting period.

INVESTMENT INCENTIVES

Foreign Tax Credit

The United Kingdom boasts an extensive network of Double Taxation Treaties (DTTs). Typically, unilateral relief is provided to offset foreign taxes paid on profits from non-UK sources against the corresponding UK tax. While relevant treaties may occasionally offer additional relief, their primary purpose for UK companies is to restrict overseas Withholding Taxes (WHTs) that would otherwise be payable on passive income.

Within the UK, a sophisticated system allows for 'underlying' tax relief related to foreign dividends, enabling the reduction of tax incurred at lower levels, particularly when dividends flow to the United Kingdom through a chain of companies. However, this relief is applicable only when the specific dividend is subject to tax, limiting its applicability as most foreign dividends are tax-exempt.

Capital Allowances

Enhanced tax depreciation allowances, known as capital allowances, provide various tax incentives. These incentives may be linked to expenditure or the size of the company incurring the expenditure.

Annual Investment Allowance (AIA)

Every business, irrespective of its size, is eligible to receive a 100% AIA on the initial GBP 1 million (formerly GBP 200,000 before January 1, 2019) tranche per annum of qualifying capital expenditure. While this allowance is now a permanent feature at GBP 1 million, it is limited to a single allowance for groups of companies or associated businesses.

Research and Development (R&D) Incentives

Expenditure of a revenue nature on R&D related to a company’s trade is fully permissible as a tax deduction. In specific instances, there may be enhanced relief or a credit available, offsetting against R&D costs in the company’s profit and loss account. Expenditure of a capital nature on R&D related to a company’s trade is also entirely allowable as a tax deduction, with the availability of 100% capital allowances.

Significant modifications were introduced for accounting periods beginning on or after April 1, 2023. Companies are now required to pre-notify their claims, share specific information, and adhere to new criteria, which include considering cloud and data costs as qualifying expenses. Pure mathematical research is now eligible for R&D relief, particularly benefiting those involved in data science or artificial intelligence-based R&D activities.

Further noteworthy changes are scheduled to be implemented for accounting periods starting on or after April 1, 2024. These changes include the introduction of a new consolidated scheme that merges SME and RDEC schemes, along with revised rules regarding subcontracting and eligibility for overseas costs. The landscape for claiming R&D relief is evolving, with a focus on supporting businesses engaged in innovative activities.

R&D Relief: SMEs

Some companies incurring Research and Development (R&D) expenses have the right to seek tax relief for their R&D activities. To qualify as a Small and Medium-sized Enterprise (SME), a company must fulfill certain requirements, such as having less than 500 employees, an annual turnover not surpassing EUR 100 million, or an annual balance sheet total not exceeding EUR 86 million. The enhanced R&D tax relief for SMEs includes a 230% deduction for qualifying expenditure.

R&D Tax Credits

SMEs that incur a 'surrenderable loss' have the option to claim an R&D tax credit, usually resulting from trading losses. The monetary payment is a proportion of the losses surrendered, with rates subject to change. Starting April 1, 2023, elevated credit rates will be accessible for SMEs heavily involved in R&D, underscoring the significance of research and development in their overall business operations.

R&D Expenditure Credit (RDEC)

SMEs and large companies with R&D spending funded or subsidised can seek relief through the RDEC. The credit, payable at a 20% rate, is accounted for 'above the line' and incorporated into the company's operating profits, similar to a grant. A merged scheme, effective from April 1, 2024, will consolidate incentives for both SMEs and large companies, introducing new rules and rates.

Merged Scheme

The merged RDEC regime will generate a gross taxable credit set at 20%, with changes in the tax deduction rate from the repayable credit for companies experiencing losses. The merged scheme incorporates key aspects related to restrictions on overseas costs and complexities in subcontracting rules.

Patent Box

Businesses leveraging patents may benefit from a reduced effective corporate tax rate, marked at 10% for the fiscal year 2023/24. The Nexus scheme connects intellectual property (IP) income to Research and Development (R&D) activities, in line with updated OECD principles.

Other incentives

Deductions equivalent to 150% of eligible expenses for the restoration of polluted or abandoned land are provided. Special tax incentives are in place for specific expenditures related to the production of UK films, high-end television, animation, video games, theaters, orchestras, as well as museum and gallery exhibitions.

Creative industry tax reliefs

Changes have been implemented to the tax incentives for the creative industry in the UK, aligning them with R&D Expenditure Credits. The introduction of a Video Games Expenditure Credit (VGEC) and an audio-visual expenditure credit (AVEC) replaces existing incentives, with different credit rates for film, high-end TV, video games, animated film, and children's TV.

These adjustments aim to strengthen support for the creative sector by introducing new credit rates, expenditure credits, and eligibility criteria. Transitional regulations have been established for existing productions, ensuring a seamless transition to the new system.

It is essential for companies claiming tax reliefs in the creative sector to stay informed about evolving rules and compliance requirements, including the submission of an online information form alongside their tax returns.

Notably, the United Kingdom does not provide tax holidays or foreign investment incentives, underscoring the significance of the outlined tax relief programs for businesses operating within its jurisdiction.

COMPLEX SOLUTIONS FOR YOUR BUSINESS

We have developed a wide range of professional services, which includes go-to-market research and tailored support for businesses that are new to the United Kingdom. These services are augmented by a full package of accounting, tax and payroll outsourcing and consultancy services.

Our service portfolio offers:

- Establishment and company registrations
- Formation of a limited company
- Corporate and administrative services for a new-to-market company
- Assistance with completion and filing of statutory forms
- The maintenance and safekeeping of company registers
- Providing draft notices/minutes for statutory meetings
- Completion of the Confirmation Statement
- The preparation and filing of resolutions, the filing of the annual accounts
- Company name changes
- Alterations to the Memorandum and Articles of Association
- Purchase of own shares, allotment of shares
- Registration for Corporations Tax, VAT and Payroll (PAYE) and other taxes
- Assistance with any inquiries from tax office and dispute resolution
- Processing of tax liability payments to local authorities
- Preparation of statutory tax returns and their submission
- PAYE RTI and VAT MTD submissions
- Annual Corporate Tax return
- Capital Gains and Dividend Tax submissions
- Accounting and reporting services
- Payroll and HR administration
- Consulting on legal framework and local compliance risk exposure
- Due diligence on acquisitions and mergers

Get all your company needs sorted

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About Accace Adept

We are a joint venture between Accace and Adept Advisory, established to pursue a long-term strategy of providing innovative Business Process Outsourcing (BPO) and advisory services to clients in the United Kingdom and South Africa. We joined forces to augment each other's valuable insight, knowhow and practices, whilst combining our experience in complementary fields of expertise.

About Accace Circle

Accace Adept operates internationally as Accace Circle, a co-created business community of like-minded BPO providers and advisors who deliver outstanding services with elevated customer experience and erase the borders of service delivery. Covering over 50 jurisdictions with nearly 2,500 professionals, we support more than 15,000 customers, mostly mid-size and international Fortune 500 companies from various sectors, and process at least 200,000 pay slips globally.

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