Setting up a Business in the UK

Enterprise Europe Network London

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Introduction

When starting up a business in the UK it is necessary to be aware of the many regulations to comply with. With this factsheet we aim to provide our clients with a short and focused overview of how to set up a business in the United Kingdom. The factsheet highlights the major business regulations and obligations that will affect the starting up of a business. It also includes the links to further sources of information and the contact details of relevant Government agencies.

1. Choosing the Legal Status for your business

When starting up the first thing you need to do is to decide the right legal status for your business. It is worth thinking carefully about which structure best suits the way that you do business, as this will affect your tax and National Insurance payment obligations, the records and accounts to keep, the financial liability if the business runs into trouble. Each legal status could bring several advantages and disadvantages to a business venture, thus it is appropriate to consult a business advisor before deciding on the structure the business will have. Please find below the different types of business legal statuses:

Sole Trader

Being a sole trader is the simplest way to run a business - it does not involve paying any registration fees, keeping records and accounts is straightforward, and you get to keep all the profits. A sole trader can start trading almost immediately without too much initial overheads investments. However, there are also some disadvantages. A sole trader is personally liable for any debts that the business runs up, which makes this a risky option for business ideas that need a lot of investment. It can also be difficult to obtain capital to expand the business as banks tend to be risk-averse. In addition a sole trader, as a self-employed person, is entitled to fewer social security benefits than an employee.

A sole trader must register as a self-employed person with HM Revenue & Customs. In case the sole trader assumes that the business turnover would reach £68,000 (level required for compulsory VAT registration) for a 12-month period then it is also needed to register for VAT. More information on doing business as a sole trader can be found on the following link: www.businesslink.gov.uk/bdotg/action/detail?r.s=sc&r.l1=1073858805&r.lc=en&r.l3=1073865730&r.l2=1085161962&type=RESOURCES&itemId=1073789606

Partnership

In a partnership, two or more people share the risks, costs and responsibilities of being in business. Each partner has to register as self-employed and takes a share of the profits. Usually, each partner is personally responsible for any debts that the business runs up. It is usually recommended to consult a solicitor to draft an agreement to establish the share of the profits each partner will take and what their role will be.

Even though a partnership is a simple and flexible way for two or more people to own and run a profit-making business together, there are some disadvantages. The partners have no financial protection if the business runs into trouble (each partner is responsible for the debts of the partnership as a whole). In addition, possible disagreements between partners can lead to dissolution of the partnership. More information on doing business as a partnership can be found on the following link: http://businesslink.gov.uk/bdotg/action/layer?r.s=t&l.r.l1=1073858805&r.lc=en&r.l2=1085161962&topicId=1073864308

Limited Liability Company

The main difference between the options above and a limited liability company is that the business is treated as a separate entity from its owners, thus the company's finances are separate from the personal finances of the owners and it guarantees more protection in case the company fails. Shareholders of the company can be individuals or other companies. They are not liable for the debts of the company unless they have given personal guarantees.

Before the business can start operating it must be registered with an executive agency of the Department for Business, Innovation and Skills called Companies House. Together with the registration it is necessary to nominate a director who must be at least 16 years old.
There are three sub-types of limited liability companies:

- **Private limited companies** can have one or more partners. They cannot offer shares to the public.
- **Public limited companies** must have at least two shareholders and must have issued shares to the public to a value of at least £50,000 or the prescribed equivalent in euros before they can start trading.
- **Private unlimited companies** are hybrid companies incorporated either with or without a share capital but where the liability of the members or shareholders is not limited. These are rare and usually created for specific reasons. It is recommended you take legal advice before creating one.

Please find full information on limited liability companies on the following link:

www.businesslink.gov.uk/bdotg/action/detail?itemId=1073789612&type=RESOURCES

**Limited Liability Partnership (LLP)**

A Limited Liability Partnership is a hybrid of a partnership and a limited company. Unlike an ordinary partnership, each partner's liability is limited to the money they have invested in the business and the amount of personal guarantees they have to raise. At least two of the partners must be "designated members" which means they have also extra responsibilities. LLPs must register with Companies House and have to file annual returns.

**Social Enterprise**

A social enterprise has as a primary objective to reinvest the revenues in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. Social enterprises may take a number of different business structures - the most common are companies limited by guarantee, companies limited by shares, and industrial and provident societies. More information on doing business as a social enterprise can be found on the following link:

http://businesslink.gov.uk/bdotg/action/detail?r.s=m&r.l1=1073858805&r.lc=en&r.l3=1073865730&r.l2=1085161962&r.i=1073789612&type=RESOURCES&itemId=1073789616&r.t=RESOURCES

2. **Regulations when Setting up a Business in the UK**

The choice of the legal status will determine which regulations will apply to your business.

**Sole Trader and Partnership**

In case you decide to set up a business in the form of sole trader or partnership, as soon as you start trading you must inform HM Revenue and Customs (HMRC), the British tax authority, (www.hmrc.gov.uk) which administers tax and National Insurance contributions across the UK. Please note that a sole trader or a partner will be classified as self-employed and thus you will need to make arrangements for self-assessment of income tax and for paying your own National Insurance. You can find more information on the self-employed registration on the following link:

www.hmrc.gov.uk/selfemployed/iwtregister-as-self-employed.htm

**Limited Companies**

As mentioned above, a limited liability company and its owners are separate entities. The process of setting up a limited liability company is regulated by the Companies Act 2006. The following link provides an overview of the Companies Act 2006:

www.companieshouse.gov.uk/companiesAct/companiesAct.shtml

The Companies Act 2006 requires the owners of the company to lodge a number of documents and information such as the memorandum, the name of the company, the names of the directors and the name of the company's secretary with the registrar at Companies House. Also, it is required to prepare, maintain and submit accounting records and annual returns to Companies House every year. Please find full information on the regulation to register a limited company on the following link:

www.companieshouse.gov.uk/infoAndGuide/companyRegistration.shtml

In addition, the following link at the Companies House provides a list of useful Q&As when registering a new business in the UK:

www.companieshouse.gov.uk/infoAndGuide/faq/registerNewComp.shtml
3. Cost of Establishing a Company in the UK

The registration fee for establishing a limited liability company in the UK is £20. It will take between 10 and 14 days to set up. It is also possible to subscribe for a premium service which costs £50 that provides registration on the same day the registrar of companies (Companies House) receives the documents. Please find below a comprehensive price list for company incorporation and registration: [www.companieshouse.gov.uk/toolsToHelp/ourPrices.shtml#LLPs](http://www.companieshouse.gov.uk/toolsToHelp/ourPrices.shtml#LLPs)

4. Choosing the Right Name for Your Business

Once you have decided the legal status that your company will have, you will need to register your company name with Companies House. There are certain restrictions on the company name that you can choose. If you are operating as a sole trader or partnership using a name other than your own, there is a legal requirement for the name and address of the owner to be displayed on your business stationery. For limited liability companies, the registered name of the company must be displayed at its registered office and on all relevant company publications, including emails and website. It is also required to make sure the company name is not already in use by another company. Please use the following interactive tool to check whether the chosen name is the same or very similar to others: [http://online.businesslink.gov.uk/bdotg/action/cntc?r.s=e&r.l1=1073858805&r.lc=en&r.l3=1073859929&r.l2=1085151439&r.i=1073788943&r.t=RESOURCES](http://online.businesslink.gov.uk/bdotg/action/cntc?r.s=e&r.l1=1073858805&r.lc=en&r.l3=1073859929&r.l2=1085151439&r.i=1073788943&r.t=RESOURCES)

Further information on how to choose the right name for your company is available here: [www.businesslink.gov.uk/bdotg/action/layer?=en&r.s=sc&r.l1=1073858805&r.lc=en&r.l3=1073859929&r.l2=1085151439&topicId=1073859929&r.i=1073788942&r.t=RESOURCES](http://www.businesslink.gov.uk/bdotg/action/layer?=en&r.s=sc&r.l1=1073858805&r.lc=en&r.l3=1073859929&r.l2=1085151439&topicId=1073859929&r.i=1073788942&r.t=RESOURCES)

5. Tax and Financial Duties

When starting a business there are a number of important tax-related regulations to comply with. The three main kinds of tax that are relevant for most businesses are Income Tax, National Insurance (NI) and Value Added Tax (VAT). Limited liability companies will also have to account for Corporation Tax.

Income Tax

If you are self-employed you must assess your own tax liability using ‘tax self-assessment’, complete a tax return and pay any tax due to HM Revenue and Customs by the required deadlines of 31 January and 31 July each year. Partnerships also have to submit a partnership tax return in addition to individual returns. The amount of tax you pay is based on the profit that your business makes. In case you employ staff, you are required to deduct income tax from their wages and salaries and pay this to HM Revenue and Customs.

National Insurance

NI is a contribution towards state benefits such as retirement pension, unemployment and incapacity benefits. Businesses that employ staff must ensure that employers’ and employees’ contributions to NI are paid, while self-employed people have a separate contribution structure.

VAT

VAT is a tax on most sales, services and imports and is paid at each stage of the production and distribution chain. If your turnover exceeds £68,000 a year, your business is required to register with HM Revenue and Customs as a ‘taxable person’ (please note that the compulsory VAT registration threshold is usually raised each year). Registering for VAT requires your business to charge VAT on the products and service you sell. Once registered, your business is also entitled to claim back the VAT that it has paid for business supplies and services which you deduct from the output tax before paying the difference to HM Revenue and Customs.
The standard VAT rate is 17.5% and covers all goods and services that are not exempt, zero rated or fall under reduced rate. This reduced rate (5%) is charged on domestic fuel and power as well as other domestic energy-saving products. The zero rate applies to certain categories of goods including children’s clothes, exports outside the EU, food, books and newspapers. Please note that if your turnover is lower than the legal threshold for registration, you may register voluntarily if you want to reclaim input VAT. Please find more information on VAT in the following factsheet: www.londonchamber.co.uk/DocImages/7584.pdf

Corporation tax
If your business is registered as a limited liability company, it is liable to pay corporation tax on any profits the company makes. The directors of the company pay income tax on their salaries, as do any other employees. There is a main rate of corporation tax. For the financial year starting 6 April 2009 this rate stands at 28%.

Further information on tax and duties when starting up is available here: www.businesslink.gov.uk/bdotg/action?r.s=tl&r.i1=1073858805&r.lc=en&topicId=1073859158

6. Useful Contacts

Enterprise Europe Network London, London Chamber of Commerce and Industry
The Enterprise Europe Network London team are able to assist with any enquiries regarding setting up a business in the UK.
T: +44 (0)20 7489 1992
E: europe@londonchamber.co.uk
W: www.een-london.co.uk

Business Link
Business link is a UK government body for business support.
T: 0845 600 9 006
W: www.businesslink.gov.uk/bdotg/action/home

Companies House
Companies House is the UK organisation responsible for incorporation and dissolving of limited liability companies.
T: +44 (0)303 1234 500
W: www.companieshouse.gov.uk/index.shtml
E: enquiries@companies-house.gov.uk

HM Revenue & Customs (HMRC)
HMRC ensures the correct tax is paid at the right time, whether this relates to payment of taxes received by the department or entitlement to benefits paid. Most of the information is available online.
T: 0845 010 9000
W: www.hmrc.gov.uk
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We provide practical, hands-on support and information for London's small and medium sized businesses seeking funding, hoping to expand their business into Europe, or wishing to develop (technology) partnerships with other European businesses. For more information please go to:  
[www.een-london.co.uk](http://www.een-london.co.uk)

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