



**SAFEGUARD
GLOBAL**

United Kingdom

Global expansion:

Entering the U.K. market

So you're expanding to the U.K.

For many companies, the U.K. marks their first foray into Europe. The U.K., which includes England, Scotland, Wales and Northern Ireland, has the second-largest economy in Europe, behind only Germany, and the sixth-largest economy in the world.¹ It also boasts one of the lowest corporation taxes in the G20.²

The U.K.'s departure from the E.U. makes its future considerably less predictable than it has been. Brexit has already dramatically affected the business climate, with companies like Sony and Barclays moving significant business operations out of the U.K., and manufacturers such as Honda and Nissan shuttering or reversing plans to open plants.³

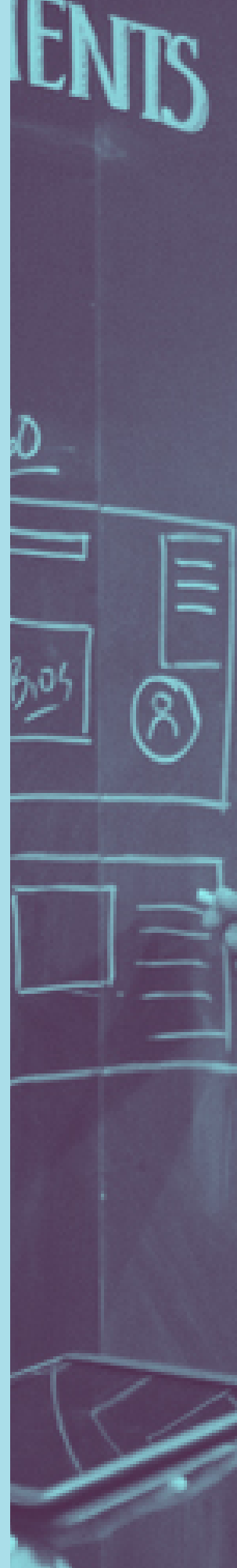
Nevertheless, the U.K. economy is forecasted to grow to \$3.27 trillion USD by 2023, driven primarily by services and manufacturing.⁴

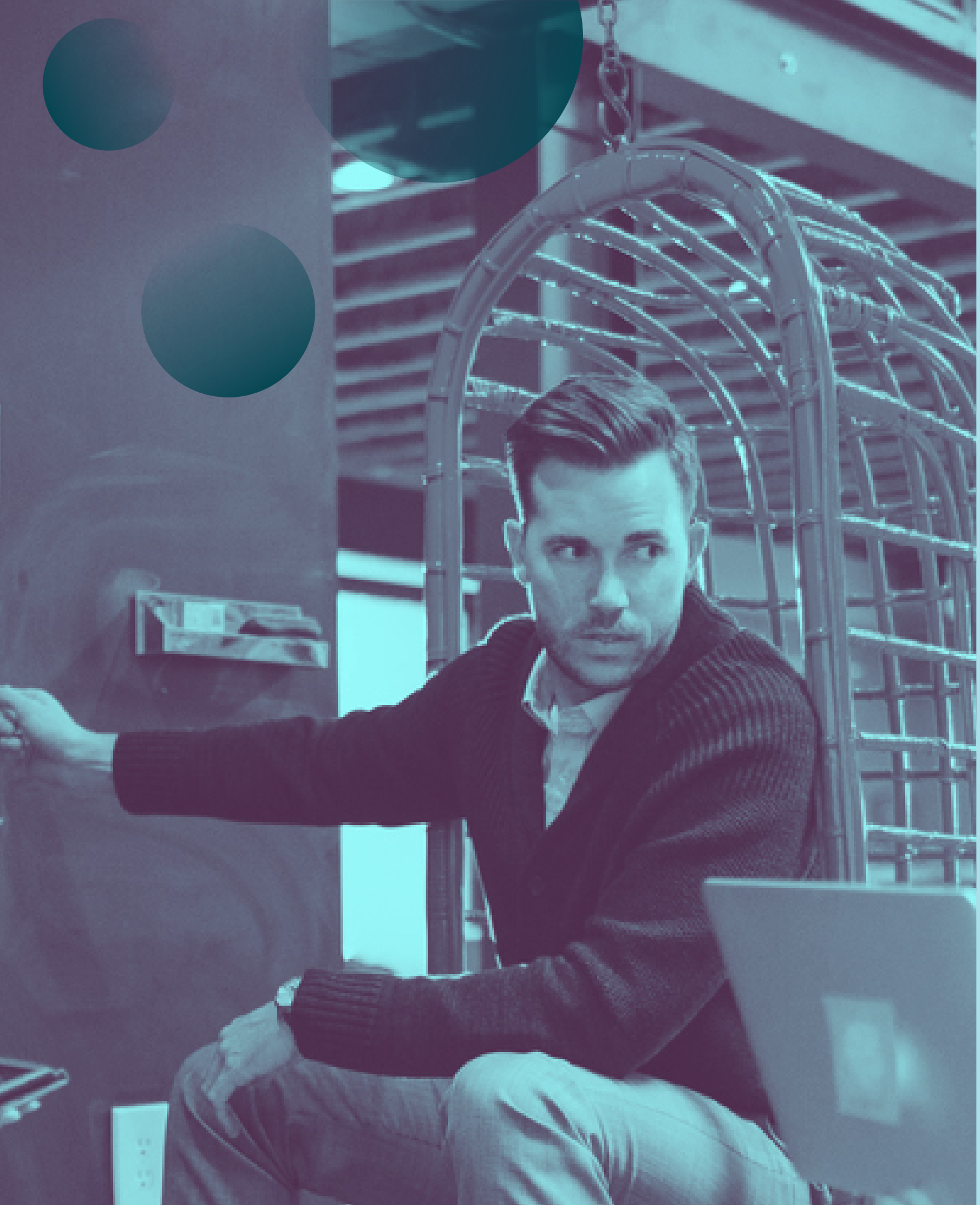
This guide will provide an overview of the many steps you'll need to take as you expand into the U.K. and ultimately help you craft a successful expansion strategy.

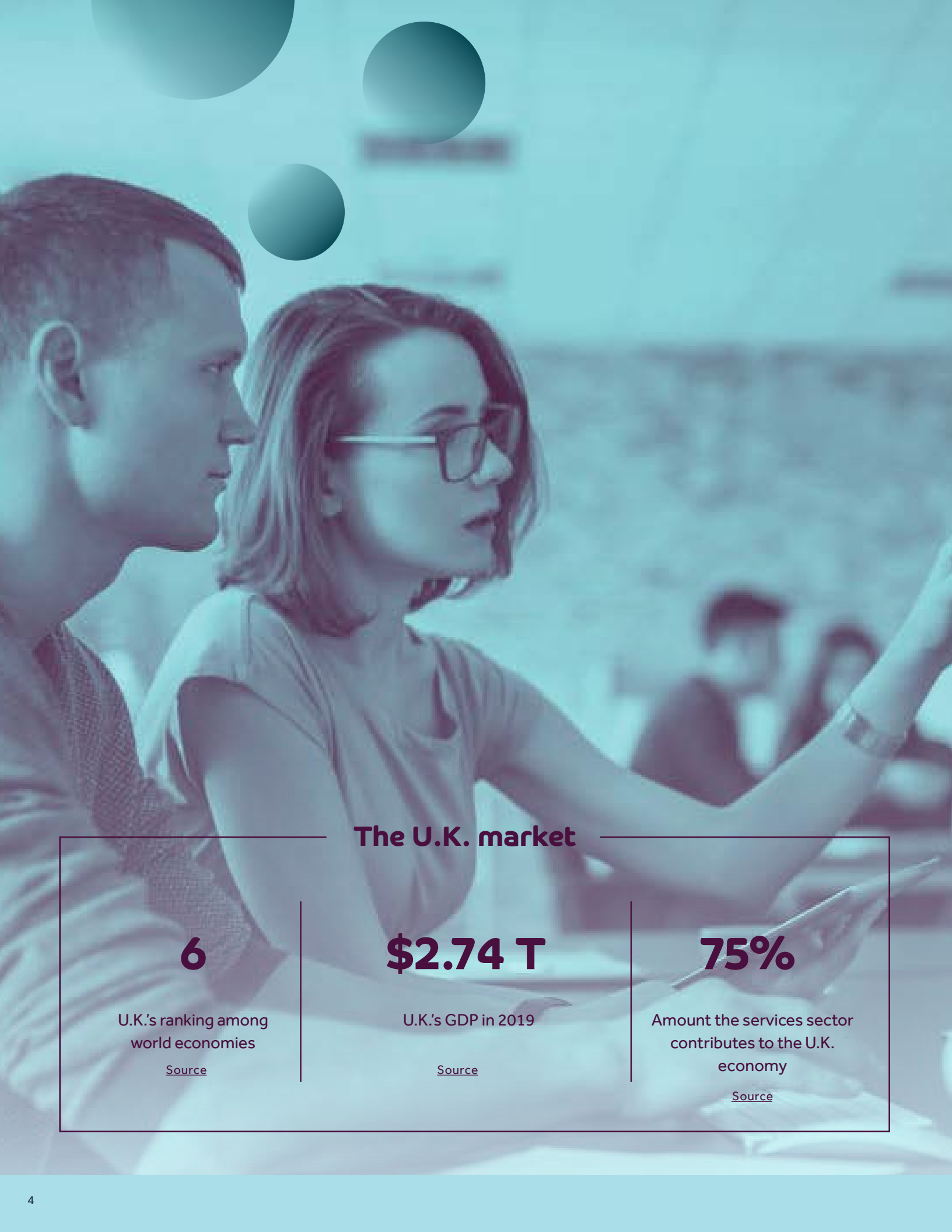
^{1,4} <https://www.investopedia.com/insights/worlds-top-economies/>

² <https://www.great.gov.uk/international/invest/>

³ <https://metro.co.uk/2019/09/23/companies-collapsed-moved-abroad-since-brexit-10795029/>







The U.K. market

6

U.K.'s ranking among world economies

[Source](#)

\$2.74 T

U.K.'s GDP in 2019

[Source](#)

75%

Amount the services sector contributes to the U.K. economy

[Source](#)



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Establishing an entity

Your first step to U.K. expansion is deciding what kind of legal entity to establish, or whether to establish one at all.

Hiring and firing employees

U.K. and local laws dictate how you classify employees and the terms of termination.

Taxes

Employers are responsible for a number of taxes, including National Insurance contributions that fund social benefits.

Employee benefits

From retirement schemes to parental leave, benefits in the U.K. are prescribed by the government.

At a glance

A synopsis of the U.K. market.

Getting started



As in most markets, your first step in the U.K. will be to establish a legal entity, a process that can take up to six months.

You'll need a U.K. address to start, and you'll have to make critical decisions such as which kind of entity to set up. Whatever you choose will influence your tax liability.

Moving in or moving on

5

Number of years of a standard lease term in London, with a five-year option to extend

[Source](#)

5-6

Number of months it can take to dissolve a subsidiary in the U.K.

[Source](#)



Determine which kind of entity to create

There are three options: Limited (Ltd) company, subsidiary limited company or a branch (also known as a U.K. establishment).



Appoint director(s), shareholder(s) and a board

A private limited company is required to have a minimum of one company director, while public limited companies require two. You'll need at least one shareholder, and you may need a board to govern your company.⁵



Open a bank account

This step can take between two and six months. The directors and 10%-25% of key shareholders will need to show documentation of identity and address, which must be translated and notarized if it's from outside the U.K. Collecting anti-money laundering data is one of the many steps involved in this long process.⁶



Register with Companies House

Companies House is the U.K.'s registrar of companies. It handles the regulation and incorporation of limited liability partnerships and limited companies. You are required by law to register your new entity with them, a process that can take up to four weeks.⁷

Staffing up (and staffing down)

There are three classifications of employees in the U.K.:

- **Employees:** Have the most labor protections
- **Independent contractors:** Have the fewest labor protections
- **Workers:** Fall somewhere between the two ⁸

The nature of the employer-employee relationship is largely what determines which class a new hire should fall into. In fact, how you engage with an employee day-to-day takes precedence over the terms of any employment contract. If you misclassify an employee as an independent contractor, you may end up owing them compensation for paid leave and other benefits for the entire length of the misclassification period.



Contracts

Every new employee whom you'll employ for more than a month, be they full-time or temporary, must be issued a contract on day one. A second, more detailed statement must be issued within the first two months. Each statement must include specific information such as the length of employment, sick leave and paid leave allotments, total compensation (including non-salaried benefits), working hours and more. A probationary period, usually between one and six months, allows both parties to assess how well the relationship works.

Post-Brexit eligibility status

Now that the U.K. has left the E.U., you can expect changes to the laws that govern workers' freedom of movement between markets, as well as to the Global Talent Visa, which offers highly skilled researchers a fast track to working in the U.K. No one can say yet how or when the laws may change.



Firing

Depending on the length of service, an employee is entitled to anywhere from one to 12 weeks of advance notice of termination, although contracts may require more than that. It is commonplace to offer at least one month's notice and between three to six months for more senior employees. A layoff or redundancy obligates an employer to offer compensation depending on the employee's age and length of employment.

Follow the Advisory, Conciliation and Arbitration Service Code (ACAS) of Practice whenever you terminate employment to ensure the dismissal is fair. Unfair terminations may require you to compensate an employee with up to 12 months of salary or £86,444, whichever is lower, and/or reinstate them.

Separate regulations govern mass redundancies of 20 employees or more made within a 90-day period.

At home and abroad

2+ M

Number of U.K. employees who work for companies that rely on some amount of E.U. investment

[Source](#)

183

Total of days spent in the U.K. each year that require you to pay U.K. taxes on your income, regardless of where it is earned

[Source](#)

A smart hiring shortcut

Partnering with an employer of record (EOR) is an effective way to hire quickly and compliantly a foreign country. In this model, an EOR provider hires workers on your behalf. Because the EOR already has a U.K. entity, no entity establishment is required on your part. The employer of record handles all HR and payroll functions, including administering benefits, and it will advise you on how to compliantly terminate employees, should the need arise.



Paying Her Majesty's Revenue & Customs

In the U.K., Her Majesty's Revenue & Customs (HMRC) collects taxes from both employers and employees. Most of these taxes are paid by employers either on their own behalf, such as with company profits, or on behalf of employees in the case of personal income tax.

After income tax, the government's second largest source of revenue comes from National Insurance Contributions (NICs). Employers and employees contribute in varying amounts. NICs fund the National Health Service, state-provided pensions, child care vouchers, sick pay, maternity pay, paternity pay, shared parental pay, adoption pay and workers' compensation.⁹ (In the U.S., the equivalent is FICA, which covers Social Security and Medicare.) Employers pay Class 1A and 1B taxes of 13.8% on payroll and benefits.¹⁰ Employee rates are variable depending on how much they earn.



Employer taxes

Besides NICs, there are four primary kinds of taxes that employers must pay.

The first is the 19% corporation tax on profits. You may qualify for deductions or be able to claim tax credits, also known as reliefs.

The next is either the corporation tax or capital gains tax. Both are taxes on profits from the sale of business assets including property, equipment and shares. The corporation tax is paid by limited companies, most unincorporated associations (e.g., clubs or co-ops) and foreign companies with a branch or office in the U.K. The capital gains tax is reserved for self-employed sole traders and partnerships.

Business rates are annual property taxes paid on all non-residential property holdings like factories, office buildings and pubs. Keep in mind that you will pay different rates in Scotland and Northern Ireland.

Finally, the apprenticeship levy (0.5% of total payroll) must be paid by all employers with payrolls over £3 million to fund a government apprenticeship program.¹¹



Employee taxes

Employers are required to deduct income taxes on behalf of employees as well as report all payroll and tax information for anyone considered a U.K. tax resident. Income tax rates are progressive and range from 20%-45%.

Deductions and reporting are both done through the Pay as You Earn (PAYE) system. Keep in mind that tax rates in Wales and Scotland differ from the rest of the U.K.¹²



Brexit and taxes

Depending on your supply chain, there may be implications to capital gains taxes post-Brexit. Similarly, depending on what happens to existing bilateral agreements between the U.K. and E.U. member countries, employees may become liable for paying social costs in two countries.¹³

¹¹ <https://www.gov.uk/government/publications/apprenticeship-levy/apprenticeship-levy>

¹² <https://www.gov.uk/income-tax-rates>

¹³ <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/tax/deloitte-uk-tax-technical-paper-brexit.pdf>

From healthcare to retirement

Employees in the U.K. are entitled to a number of benefits, including employer-paid coverage for supplemental health, life and pension contributions. NICs fund the National Health Service, state-provided pensions, child care vouchers, sick pay, maternity pay, paternity pay, shared parental pay, adoption pay and workers' compensation.



Healthcare



Holidays and paid leave



Bonuses and profit-sharing



Insurance



Parental leave



Retirement





Healthcare

Since all permanent U.K. residents are covered by the National Health Service (NHS), separate private health insurance funded by employers is a very small market and not an expectation of employment. In 2017, for example, research shows that only 19% of U.K. respondents had private health insurance.¹⁴ Private health insurance is considered a perk. It can mitigate long wait times at the NHS or provide services such as counseling and other types of wellness and prevention care that are not covered by the NHS.



Holidays and paid leave

According to the Working Time Regulations, full-time employees are entitled to a minimum of 28 days of paid annual leave each year, which may include eight bank holidays in addition to vacation. Up to eight days of unused annual leave may be carried over into the next year. After three consecutive days of missed work due to illness, employees are entitled to sick leave pay; this can be paid up to 28 weeks. The following is a list of bank holidays in England and Wales:

New Year's Day

January 1

Spring bank holiday

Late May, date varies

Good Friday

Friday before Easter Sunday

Summer bank holiday

Late August, date varies

Easter Monday

First Sunday after the first Full Moon on or after the March equinox

Christmas Day

December 25

Early May bank holiday

Early May, date varies

Boxing Day

December 26



Parental leave

Both parents are entitled to parental leave prior to and/or after the birth of a child. Pregnant employees receive 52 weeks of maternity leave and are required to take at least the first two weeks of leave after a baby is born. It is a criminal offense for an employer to let an employee return to work sooner than two weeks. This includes mothers who lose a child after 24 weeks of pregnancy or during maternity leave.

Adoptive parents are also eligible for up to 52 weeks of adoption leave.

Up to 50 weeks of parental leave can be shared by both parents when eligible. Not including the first two weeks of leave, which the mother must take, parents may split their shared parental leave however they choose.

Paternity leave grants fathers two consecutive weeks of paid leave within eight weeks of a birth or adoption. Parental leave pay equals 90% of an employee's average weekly gross pay or a basic weekly amount set by the government, whichever is lower.¹⁵



Bonuses and profit-sharing

Bonuses and profit-sharing are two optional ways to reward employees and/or compensate them beyond salary and benefits.

Bonuses are not regulated. However, they may not be allocated in a discriminatory way, and they must be reported as income.

There are a number of options when it comes to **profit-sharing** or **employee share schemes**. These schemes let employees benefit from company profitability via share ownership. They differ in how much stock one can buy, whether it's taxed and what the employee matching options are. Employers must file a form every tax year for each scheme.

Share Incentive Plans: Employees contribute monthly for three to five years toward the purchase of company shares. Shares can also be gifted and/or matched by employers.

Save as You Earn: Some or all employees may purchase share options.

Company Share Options Plans: All employees are given the option to buy shares and employers may choose to match shares.

Enterprise Management Incentive Schemes: Small and medium enterprises (SMEs) with assets of £30 M GBP may offer options for sale to employees.

Employee Ownership Trusts: Employers give shares as bonuses via a trust that controls the company.¹⁶



Retirement

Employers are required to enroll their employees in a pension scheme, either the **National Employment Savings Trust (NEST)** or their own scheme. Pension scheme contributions, both employer and employee, begin after three months of employment. Employer contributions are mandatory, but an employee may opt out within one month.

In addition, there are two **state pensions**, which require mandatory contributions by employee (5%) and employer (3%). These pensions are also funded via **National Insurance Contributions (NICs)** made by employers.¹⁷

Top 10 U.K. cities for expansion based on prospects for economic growth*

- 1 Edinburgh
- 2 Cambridge
- 3 Manchester
- 4 Brighton & Hove
- 5 Oxford
- 6 Bristol
- 7 Reading
- 8 Guildford
- 9 Cardiff
- 10 Colchester

Source

*Excluding London





Doing business in the U.K.

Name

United Kingdom (U.K.)

Location

Europe

Neighbors

Republic of Ireland

Territory

Includes England, Scotland and Wales (which together make up Great Britain) and Northern Ireland

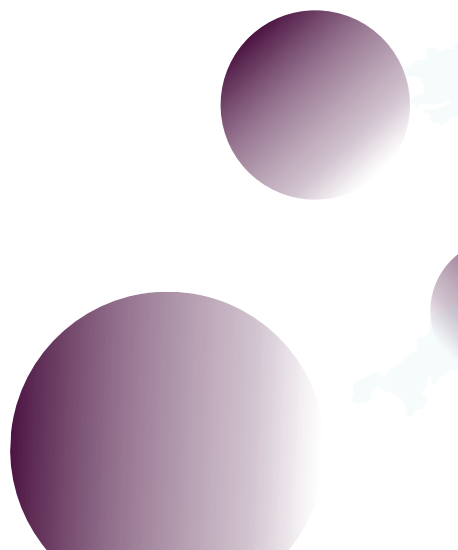
Currency

British Pound (GBP)

Government

Constitutional monarchy and parliamentary democracy with three branches:

- **Legislative**
Parliament of the United Kingdom, with two chambers, the House of Commons and House of Lords
- **Executive**
Prime Minister and Cabinet
- **Judicial**
Lower courts and Supreme Court





Establishing an entity

Your first step to U.K. expansion is deciding what kind of legal entity to establish, or whether to establish one at all. An employer of record (EOR) is a simple and cost-effective alternative to getting up and running quickly without the need for establishing an entity.



Hiring and firing

Various laws dictate how to classify and compensate employees and regulate termination. Full-time employees are governed by different regulations than workers or independent contractors. Misclassifying an employee as an independent contractor can carry massive penalties.



Taxes

Employers are responsible for a number of taxes, including National Insurance Contributions (NICs) to fund social benefits, corporate tax, capital gains and business rates. You are also required to withhold certain contributions and pay them to the government on behalf of your employees. Brexit may bring about changes to taxes for both employers and employees.



Employee benefits

Some benefits like paid time off are mandated by law, and others, such as bonuses, are not. The most common benefits include time off such as vacations, holidays and parental leave, and retirement schemes.



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