

Doing business in the UK: finding the right structure for your international business

The UK is a great base to fulfil the next stage of your business expansion, with its flexible tax planning options and extensive network of double tax treaties.

This insight is one of a series that will guide you through the basics of everything you need to consider when setting up in the UK. Here, we outline the tax and liability implications of the four main structures for setting up in the UK.

Your first decision is the type of UK entity that will best fit your needs, including any international business and tax filings. The four main structures for setting up a business in the UK are: sole trader, partnership, limited liability partnership and limited company.

Your chosen structure affects the amount of tax you pay, the degree of personal liability, the amount of administrative work involved and even your ability to raise finance. Take advice before you start, as getting it wrong can be costly.

Four main structures for doing business in the UK

Sole trader

This is the simplest form of business trading in the UK for a single individual to register. The business is run by you and there is no separate legal entity to incorporate nor limited liability, although you can undertake insurance to cover any liabilities.

As a self-employed sole trader, you are entitled to keep all the profits as income, which is subject to a single level of UK taxation. You pay personal income tax and national insurance directly on the profits made. There is no maximum amount you can earn but it can become less tax-efficient when you enter the higher tax brackets.

Considerations: Sole trader status normally aligns with overseas personal tax filing requirements for foreign tax credits. There should be no double taxation issues if there is a treaty between the UK and your jurisdiction. It could be suitable if you are in the UK for a short time to cover living expenses and mitigate any cash remittance issues. Being a sole trader brings little formality and fewer compliance costs.

Partnership

A partnership involves two or more self-employed individuals working together to share in the profits of the business. Partnerships are unincorporated entities that do not provide limited liability to the partners. The partners are collectively responsible for the other partners' negligence or misconduct. The profits or losses are shared between the partners in an agreed profit-sharing ratio and each partner pays income tax and national insurance directly on their share of the profits.

Considerations: These are the same as the sole trader considerations above, barring the fact that you will be working in the UK with other individuals for a common commercial business goal.

Limited liability partnership (LLP)

The members of an LLP can be individuals or companies. An individual partner in an LLP is directly subject to income tax and national insurance, whereas a corporate partner is subject to corporation tax on its share of the profits. An LLP has the advantage of liability limited up to the amount of money the partners invest in the business.

However, this comes with additional compliance costs, as it is classed as a separate legal entity and requires a formal incorporation.

Considerations: The more formalised structure of an LLP works better for some business operations and international structures but not for all. Investigate double taxation and foreign tax credit offsets, as this kind of entity can be treated differently for tax purposes in jurisdictions outside the UK.

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Limited company

A limited company is a privately managed business, owned by its shareholders and run by its directors. It also requires a formal incorporation and the shareholders can be individuals and/or entities but directors by their nature are named individuals. The company is a separate legal entity with its own legal rights and obligations. This means the company is responsible for everything it does and its finances must be kept separate from the personal affairs of its ultimate owner(s).

Any profits that are retained by the company, after payment of salaries and corporation tax, can be distributed to shareholders in the form of dividends. A limited company involves two layers of taxation, so annual compliance costs can be higher than for the other options. It is relatively easy to incorporate your UK business structure into a company but more complex and costly to revert and disincorporate.

Considerations: This type of UK entity can form part of an efficient international tax group. A limited company can retain more UK working capital within the business, given corporation tax rates are usually lower than personal income tax rates. It can even commercially protect your brand name.

It is the most common first option for setting up a business in the UK but is the timing right for your business? In the initial planning stages, registering a UK branch of your entity may be the smartest first step. However, consider the overall global tax impact and the potential for foreign tax credit mismatches, not merely the UK taxes paid.

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