



Top 10
considerations
when expanding
into the UK

EXPANDING INTO THE UK

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1. Permanent establishment risk

Will your overseas activities create a permanent establishment (PE) and require you to register for UK corporate income taxes? A permanent establishment could be created if you answer YES to any of the following questions:

- Are you operating from a fixed place of business, eg leased office, home office?
- Do your overseas employees have the power to substantially negotiate contracts for the company?
- Are the activities of the employees/contractors in the overseas territory more than preparatory or auxiliary to the business?
- Do your overseas employees have revenue-generating roles?

2. Entity types

If there is a PE, the company may wish to operate through a branch or otherwise transfer activities to a subsidiary company.

Subsidiary

- A separate legal entity for engaging in business in an overseas territory.
- Provides a layer of protection between the interests of the parent and the overseas entity.
- Only local financials are filed on public record (rules may vary elsewhere in Europe).

Branch

- An extension of a parent company, usually serving a certain geographic area.
- Not a separate legal entity, so part of the foreign parent company.
- Can engage in core activities, sales and marketing, etc.
- Similar tax reporting requirements to UK subsidiary, but will require parent financials to be filed on public record.

3. Contractor vs. employee

Are you engaging with individuals via a consultancy or contractual arrangement?

As in North America, most countries have complex rules regarding contractor, consultancy and agency arrangements. Advice will always be needed to determine whether or not the individual could be considered to be an employee, which could create payroll tax and social security implications. Using a PEO removes some of the employment burden, but does not translate easily cross border, as it typically does not remove the PE issues. Note: it is unusual for anyone except an employee to be granted stock options.

4. Offer letters and employment contracts

Employment 'at will' is a USA centric concept.

The UK, and most other countries, require a locally compliant employment contract written in accordance with local employment legislation (this will impact employee reimbursement/ spend as well).

From 6 April 2020 all new employees are required to have a contract in place at day one of employment.

Local employment legislation will take precedence where no employment contract exists, or if the terms of the employment contract are less favourable than local statutory terms.

The 'value' of an employment contract comes when negotiating the termination of employment.

5. Employee benefits

The employer-employee relationship is much more strictly regulated outside North America. There are few statutory benefits in the UK, but you can add supplemental benefits. Note: extensive statutory benefits exist in many other European countries.

Local common-practice must be considered when trying to attract the best talent.

Benefits costs will not be the same as your HQ country eg healthcare in the UK will only be c.15 per cent of the costs in the US.

UK employers are legally required to automatically enrol eligible employees into a workplace pension, where both employer and employee make contributions at statutory minimum levels of 3 per cent for employer and 5 per cent for employee.

Employees are eligible if they:

- are aged between 22 and state pension age;
- earn more than US\$12,490* a year; and
- work in the UK.



6. Immigration and Expatriates

Sending an employee to work in the UK creates a host of issues – obtaining the correct visa and agreeing the company and employee tax positions should be finalised before committing to travel to the UK.

Whether the move is on a temporary or permanent basis RSM and its partners can provide:

- advice in relation to immigration requirements and options available;
- administration processes and procedures required to support sponsorship applications;
- support with attendance at UK Visas and Immigration interviews;
- facilitation of visa/work permit application process;
- expatriate remuneration packages;
- cross border tax advice;
- contractual amendments for temporary secondments and permanent transfers; and
- tax briefings for the employee explaining the UK tax system, their tax position and filing obligations.

Tax assistance is recommended to ensure the employee does not have to pay more income taxes as a result of the assignment than would have been paid at home.

In respect of workplace sponsorship and work permits, specialist advice from immigration lawyers should be obtained.

7. Transfer Pricing

Have you considered how your overseas entity is going to trade, for example, direct sales versus provision of inter-company services?

Even if all customer sales are recognised in your HQ country, you will be expected to show some revenue, and profit, in the accounts of your overseas entity.

You need to consider the local transfer pricing rules and what documentation you need to have in place to support/defend your approach.

8. Requirement to register for VAT

VAT needs to be considered at the outset to ensure it does not derail your intended trading structure. You should consider:

- Do you need to register for VAT?
- Would it be beneficial for the entity to register voluntarily for VAT?
- If I am importing/exporting goods, or moving goods within the EU, what do I need to consider?
- How does Brexit impact my supply chain and intended structure?
- What additional licences and authorisations are required?
- Should I have my customer import the goods to avoid VAT/ customs duty costs?

Note. there are differing rules when selling to companies or selling to individuals.

9. Stock options

Should I grant my overseas employee stock options?

Setting up an approved sub-plan can provide significant tax savings to the company and the employee.

The approach needs to be considered before options are granted.

10. Accounting for your business

- How are you going to complete the bookkeeping for your UK business, and on what system?
- Have you considered how you are going to account for VAT on your accounting system?
- Who will make payments to employees and suppliers?
- Do you need an audit in the UK?
- What other reporting requirements do you have in the UK in relation to employees? Stock option reporting, employee benefit reporting etc .
- Have you budgeted for the employer social security charges in relation to employment income?

We often see businesses make the same common mistakes when setting up in the UK. Read about how to avoid them [here](#).



Business environment

POLITICAL CYCLE

- Next General Election scheduled for 2 May 2024.
- Latest poll: Conservative 45 per cent, Labour 37 per cent, Liberal Democrats 6 per cent, SNP 5 per cent (June 2020).

EUROZONE COMPARISONS

- 1.23 per cent GDP growth rate (2019).
- Eurozone Unemployment rate:
 - 7.4 per cent (January 2020).

AVERAGE EARNINGS

- Median gross annual earnings for full-time employees reached \$37,995* in April 2019.
- An increase of 2.9 per cent on previous year.
- In real terms (after adjusting for inflation), annual growth in total pay is estimated to be 1.4 per cent, and annual growth in regular pay is estimated to be 1.8 per cent in December 2019.

AVERAGE HOUSE PRICE

- Average UK house price \$308,000*.
- UK Average House Price risen by 1.3 per cent on previous year (January 2020).
- 27.8m households, increase of 2.9 per cent on previous year (November 2019).

EMPLOYMENT

- 1.34 million unemployed (March 2020).
- Unemployment rate 3.9 per cent (March 2020).
- Claimant count increased to 2.8 million in May 2020.
- 476,000 vacancies (March - May 2020).
- EU net migration stands at 49,000 (December 2019).

ECONOMIC DASHBOARD

- CPIH 12-month inflation rate 1.7 per cent (February 2020).
- Bank of England Interest Rate:
 - 0.1 per cent since 19 March 2020.
- \$930* billion quantitative easing (June 2020).
- \$640,060* million GDP Q1 2020.
- GDP fell by 10.4 per cent in the three months to April 2020.

*£1 = \$1.249 [click here](#) for source reference