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chapter 06

FINANCIAL AND MANAGEMENT REPORTING, AUDIT AND TAX

FINANCIAL AND MANAGEMENT REPORTING, AUDIT AND TAX

STATUTORY ACCOUNTING REQUIREMENTS AND PRINCIPLES

REQUIREMENT TO KEEP ACCOUNTING RECORDS

UK law requires companies to keep adequate accounting records, and prepare accounts for each financial year which must be filed at Companies House. The requirements for LLPs are similar to those for companies.

There is no specific legal requirement for sole proprietors to keep accounting records. However, tax legislation requires the retention of records used in the completion of tax returns, and these must be adequate to support the figures shown on the tax return. Partnerships must keep records of all receipts and payments, and all sales and purchases of goods.

Generally, tax legislation requires that accounting records be kept for at least six years. If accounting records are kept outside the UK, accounts and returns sufficient to disclose the financial position of the business and to enable directors to prepare a balance sheet and a profit and loss account, must be sent and kept in the UK.

The Companies Act 2006 doesn't specify the form in which the accounting records are to kept, but they must be sufficient to:

- Show and explain the company's transactions (ie, all sums of money received and expended and the reason for the receipts or expenditure)
- Disclosure with reasonable accuracy, at any time, the company's financial position (its assets and liabilities) at that time
- Enable the directors to ensure that any accounts required to be prepared comply with the requirements of the Act.

If the company's business involves dealing in goods, records must be kept of the following:

- All stock held (inventory) at the date to which the accounts have been drawn up, and all stocktaking records from which such statements have been prepared
- All goods sold and purchased, including the identity of the buyers and sellers (except in the case of goods sold in ordinary retail trade).

A parent company that has a subsidiary for which these requirements do not apply (eg an overseas subsidiary) must take reasonable steps to ensure the subsidiary keeps appropriate accounting records, to enable the parent company to ensure that any accounts required to be prepared (eg consolidated accounts) comply with the statutory requirements.

It also essential that a company maintains a number of statutory registers, and that they are kept up to date - for example, to show the current directors, the secretary (if applicable) and the members. These records can be inspected by the general public.

Read about BDO's outsourced accounting and bookkeeping services.

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ACCOUNTING PERIOD

All companies and UK establishments must report in respect of each accounting reference period. Typically, this will be for 12 months however, a company may shorten this period or extend it by up to 18 months. Where a company chooses to alter its accounting reference period, specified conditions must be met (for example, an accounting reference can typically only be lengthened once in every five years) and notice must be given on a prescribed form to the Registrar of Companies before the filing deadline for that period.

Listed and AIM companies must also prepare half-yearly reports as required by their respective listing rules (although there are some exemptions).

ACCOUNTING FRAMEWORKS FOR DIFFERENT SIZE COMPANIES

There is an overriding requirement for a company or LLP to prepare accounts for each financial year that show a true and fair view. A company is permitted to prepare its accounts under either UK GAAP (generally accepted accounting principles, ie, UK reporting standards all related rules and guidelines) or IFRS (International Reporting Standards as adopted by the European Union).

Once a company elects to prepare its accounts under IFRS, it cannot revert to UK GAAP, except in limited circumstances or once every five years. Companies listed on the London Stock Exchange or AIM are required to use IFRS in their consolidated financial statements.

Both accounting frameworks require the presentation of comparative (prior period) information.

Read about BDO's financial reporting services.

A company or LLP can qualify as a micro-entity, a small company, a medium company or a large company. The size of the company determines both the legal and accounting options available to individual accounts as follows:

	IFRS	UK FRS 101[1]	UK FRS 102[2]	UK FRS 105
Micro-entity	✓	✓	✓	✓
Small	✓	✓	✓[3]	
Medium	✓	✓	✓	
Large	✓	✓	✓	

[1] Effectively, EU adopted IFRS but with reduced disclosure requirements

[2] The main UK reporting standard

[3] A small company applying FRS 102 will follow the standard recognition and measurement principles but is not required to make the same volume of disclosures

Generally, a company will qualify as the respective size if it meets at least two of the three following conditions for both the current accounting year and the previous accounting year:

	MICRO-ENTITY	SMALL	MEDIUM
Turnover	Not more than £632,000	Not more than £10.2m	Not more than £36m
Balance sheet total	Not more than £312,000	Not more than £5.1m	Not more than £18m
Number of employees	Not more than 10	Not more than 50	Not more than 250
Companies and LLPs that do not meet the criteria to be classed as Micro, Small or Medium will qualify as Large.			

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There are some exclusions where an entity will not qualify as the respective size despite meeting the right quantitative criteria. The exclusions are complex, and entities would be well advised to discuss their specific circumstances with an advisor to determine the correct size classification for their business.

Dormant companies can also claim additional exemptions in relation to preparation and filing of accounts which will depend on the facts and circumstances of the company. These exemptions are varied and again can be complex to assess so advice should be sought. A company is dormant in circumstances where no significant accounting transactions have arisen during the financial period (as defined in the Companies Act).

THE FINANCIAL STATEMENTS

The directors of a company must prepare a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity, a statement of cash flows and notes. The relevant rule for the size of the company prescribes the form and content of the balance sheet, profit and loss account and additional information to be provided by way of notes, for example, details of directors' remuneration.

In addition to the financial statements, the annual report must include a directors' report (unless the company qualifies as a micro-entity) and a strategic report (unless the company qualifies as a micro-entity or small). Where the company is listed on the London Stock Exchange it must prevent, in addition to a directors' report and strategic report, a directors' remuneration report and a corporate governance statement.

The accounts may also need to be accompanied by an auditors' report – see Who needs an audit?

Small companies

Companies that qualify as small are entitled to prepare accounts in accordance with the small companies' regime. Although there are still full accounts, small companies will be subject to less onerous disclosure requirements in FRS 102 and are not required to produce a cash flow statement and a statement of changes in equity. This option is not available to IFRS reporters or, for example, traded companies defined as "a company any of whose transferable securities are admitted to trading on a regulated market". However, a company in the same group as a plc, or an AIM-listed company, may still qualify for the small companies' regime (because its own shares are not traded) provided other relevant criteria are met. Companies in the same group as a fully listed company will not, however, qualify for the small companies' audit exemption.

Small companies may also elect to prepare and the "abridged" accounts in place of the 'shorter-form' full accounts. A company may elect to prepare for its members an abridged balance sheet, an abridged profit and loss account – or both.

Parent companies

Parent companies must prepare group accounts consolidating their subsidiaries, unless entitled to an exemption. Certain companies are exempt from the requirement to prepare group accounts. For example, companies that are themselves included in the group accounts of a larger group are exempt, subject to conditions. A UK parent company that prepares group accounts must ensure that its UK subsidiaries adopt the same accounting framework in their own accounts. However, there are some exceptions to this general rule.

A parent company that would qualify for the small companies' regime but for being a public company, and is not a traded company, is also exempt from preparing group accounts.

Read about BDO's financial reporting services.

WHY – would a small company choose to only produce 'abridged' accounts?

To make the process simpler – abridged accounts cut down on some of the analysis (and costs) but they must still show a 'true and fair view' of the business. The company must get the consent of its members (shareholders) first and send a statement to the Registrar of Companies to prove it.

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FILING REQUIREMENTS

Accounts signatories

A company's annual report and accounts must be approved by the board of directors and signed on its behalf. The accounts must be signed by a least one director. The directors' report and the strategic report must be signed by either a director or company secretary.

The signature on the accounts must be on the company's balance sheet. The date on which the directors approved the accounts should be stated, ideally next to the signature on the balance sheet.

Filing a public record

Private limited companies must file their accounts and reports at Companies House within nine months and public companies within six months of the accounting reference date. For those filed late, private companies face a penalty of between £150 and £1,500; and plcs could be fined between £750 and £7,500.

Accounts and reports are available for public inspection at beta.companieshouse.co.uk. Quoted companies must file a complete a set of accounts and reports (which will also include a directors' remuneration report), and must also publish their accounts and reports on a website maintained by the company, or on its behalf.

These must remain freely available on the website until the following year's accounts and reports are published.

The following exemptions from preparing or filing accounts are allowed:

- An intermediate parent may be exempt from preparing group accounts if certain criteria are met, which include filing the group accounts in which it is included (see above)
- A dormant company that is a subsidiary may be exempt from filing accounts if certain criteria are met, including the giving of a guarantee by its parent.

Circulation of accounts

A copy of the accounts, together with the directors' strategic and auditors' reports on those accounts, must be sent to the shareholders, debenture holders (if any), and any persons who are entitled to receive notice of general meetings (unless the company does not have the current address). This should happen by no later than the end of the period for delivering the accounts and reports or, if earlier, the date on which it actually delivers its accounts and reports for filing.

Companies are permitted to send the accounts and reports to the relevant persons electronically provided they have received their consent in advance. A company can either send the documents to an address notified to the company by the person, or it can publish the documents on a website, having advised the person of the name of the website, having advised the person of the name of the website where the documents can be accessed.

A public company must comply with the above accounts circulation requirements at least 21 days before the date of the Annual General Meeting (often known as AGM) at which the accounts and reports will be laid.

Read about BDO's outsourced financial reporting services.

Overseas companies

Overseas companies with a presence in the UK (ie a UK establishment), are required to register with Companies House. The type of accounts required for filing in the UK by the overseas company will depend on whether it is required to prepare, have audited, and publicly disclose its accounts in the country of incorporation. Registration is not required if there is no physical presence in the UK.

Companies that are required to publicly disclose accounts in their home territory must file a copy of those accounts, together with any directors' report and auditors' report, with the UK Registrar.

Overseas companies incorporated within the EEA that are not required to deliver accounting documents under their own national law do not have to file any accounting documents with the UK Registrar.

A company incorporated outside of the EEA that is not required to disclose accounts publicly under the law in its country of incorporation must prepare accounts under one of the following accounting frameworks:

- Section 396 of the Companies Act 2006
- The law of the country of incorporation
- IFRS as adopted by the EU.

There is no requirement that the accounts must be audited, but the accounts must state whether an audit has been performed. If the accounts have been audited in accordance with generally accepted auditing standards, the accounts must state the name of the body that issued those standards and include the audit report. If an overseas company is a parent company, the directors must prepare group accounts for the year instead of individual accounts, subject to certain exemptions. For example, if an overseas company ceases to have a place of business in any part of the UK, it must give notice to the Registrar for that part and is, from the date on which notice is given, under no obligation to deliver any document to the Registrar.

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CONFIRMATION STATEMENT

An annual confirmation statement must also be filed with Companies House giving details of any changes to the share capital or the company's SIC code (individual classification), as well as a company's officers and shareholders as at a certain date, and the last annual return date.

Register of beneficial owners

UK registered companies and LLPs are required to identify and record the people who own or control their company and report this to Companies House: records must be updated within 14 days of any change. A publicly available register of Persons with Significant Control (PSC) is maintained by Companies House to increase transparency as to who owns and controls UK companies.

Any individual who directly or indirectly (eg via another company) meets one or more of the following conditions must be recorded as a PSC:

- Owns more than 25% of the shares (50% or more for overseas companies that control UK companies)
- Holds more than 25% of the voting rights (50% or more for overseas companies that control UK companies)
- Holds the right to appoint or remove the majority of directors
- Otherwise has the right to exercise, or actually exercises, significant influence or control
- Holds the right to exercise, or actually exercises, significant influence or control over the activities of a trust, or firm which is not a legal entity, but would itself satisfy any of the first fur conditions if it were an individual.

Note that there are many more complicated rules for listed entities, trusts etc.

For each PSC, the register will show the individual's:

- Name
- Date of birth
- Nationality and country, state, or part of the UK where they live
- Residential and service address (although residential addresses will remain hidden both at Companies House and in the company's register)
- The date the individual became a PSC
- How the individual qualifies as a PSC
- Any applicable restrictions on disclosing the PSC's information.

Similar rules are soon to be applied to overseas companies seeking to buy UK land and property from 2021. It is expected that companies will have to supply data on their beneficial owners before a transaction can take place and that this will be held on a publicly available register. The register will show who owns and controls overseas companies and other legal entities that own UK property. All legal entities will be in scope, including trusts. However, the beneficiaries of trusts will not be named on the register for confidentiality reasons.

Read about BDO's company secretarial services.

HOW – much does it cost to file a Confirmation Statement?

From November 2016, a fee of £13 must be paid to file a Confirmation Statement electronically or £40 is a business files a paper form. Of course, businesses that engage a professional adviser to complete and file the form will also have to pay professional charges.

FINANCIAL AND MANAGEMENT REPORTING, AUDIT AND TAX

AUDIT REQUIREMENTS

WHO – needs an audit?

At the time of publication, all UK businesses incorporated under the Companies Acts (companies and LLPs) must have their accounts audited, unless they qualify for exemption.

Read about BDO's audit services.

AUDIT EXEMPTIONS

The regulations give non-charitable companies, total exemption from an audit if all of the following conditions are satisfied:

- the company qualifies as "small" under the Companies Act 2006 (seebelow); and
- the company was not any of the following at any time during the year:
- a public company,
- an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company, or a company that carries on insurance market activity, or
- a special register body as defined (e.g. trade unions and employers' associations)

Exemption from audit is not available to companies where any member or members holding at least 10% of the issued share capital (or at least 10% of the number of members of the company if the company does not have a share capital) deposits a written notice at the registered office not later than one month before the end of the financial year stating that they require the accounts to be audited.

Generally, a company or LLP is treated as 'small' if it meets two out of three of the following tests in two out of three consecutive years:

- Has total assets of less than £5.1m
- Has total turnover of less than £10.2m
- Has less than 50 employees at the balance sheet date

In addition to the above, the UK company should not be part of a non-small group if it wishes to be exempt from an audit.

Companies which would be entitled to audit exemption in their own right but are also members of a group (i.e. are a parent and/or a subsidiary company) will be exempt from audit if all of the following are satisfied:

- The wider group qualifies as a small group during the financial year, and
- The wider group was not an ineligible group at any time during that year.

Note: When considering the 'wider group' parents and fellow subsidiaries above the company seeking to take the exemption must also be considered, not just other entities in the group headed by the company seeking to take the exemption. The term 'group' means the parent company together with all its associated undertakings. For this purpose undertakings are associated if one is a subsidiary undertaking of the other or both are subsidiary undertakings of a third undertaking. This would include any overseas undertakings.

If the above criteria are not satisfied the audit exemption for eligible subsidiary companies with an EEA parent guarantee could be considered. This exemption applies irrespective of the size of the subsidiary but is not available to certain types of company. (s479A & s479B)

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This group criteria includes any companies outside of the UK. Alternatively, subsidiary companies (including dormant ones) are exempt from the mandatory audit requirement, subject to the following conditions:

1. Its parent undertaking must be established under the law of an EEA state and prepare consolidated accounts in accordance with the 7th Company Law Directive or IFRS
2. The shareholders must unanimously agree to dispense with an audit in the financial year in question
3. The parent must give a statutory guarantee of all the outstanding liabilities to which the subsidiary is subject at the end of the financial year
4. The company is not listed on a stock exchange, nor an authorised insurance company, a banking company, an e-money issuer, a MIFID investment firm or a UCITS management company, nor carry on insurance market activity, and cannot be a trade union or an employer's association.

This exemption is not limited by the size of the subsidiary or the size of the group as a whole, nor are members of a group with a public company member excluded. Certain documents will need to be filed at Companies House, including confirmations of shareholder agreement and the parent guarantee, and the group accounts will need to disclose that the exemption has been taken by the subsidiary(ies) and be filed with the subsidiary accounts.

If there is any doubt, advice should be sought to determine whether or not the company or LLP is exempt from the audit requirement.

Of course, many entities consider that an audit is beneficial and will continue to be audited even where they fall within the exemption. Some of the main benefits of a company having its accounts audited are to:

- Meet lenders' or creditors' expectations
- Reassure directors that they have met their accounting responsibilities for the benefit of shareholders who are not directors
- Minimise questions from the tax authorities
- Provide feedback to the directors on their systems and controls, although the auditor will not necessarily perform a detailed assessment of the entire system
- Improve the company's credit rating
- Provide an independent check on the company's accounting function
- Get the company used to having audits if it expects to grow and would need to be audited in the future.

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WHAT IS THE ROLE OF AN AUDITOR?

The auditor will examine the accounts and accounting records of the company, and prepare a report for the company's members: this report will be included in the company's published report and accounts. The auditors' report must state whether the accounts have been properly prepared in accordance with the relevant financial reporting framework (eg IFRS as adopted by the EU); have been prepared in accordance with the Act; and whether they give a true and fair view. The auditor must also report on whether the information given in the directors' report, any strategic report and any separate corporate governance statement, is consistent with those accounts, and whether the reports have been prepared in accordance with applicable legal requirements.

In forming their opinion, auditors must also consider whether the following conditions have been satisfied:

- Have adequate accounting records been kept?
- Are the annual accounts in agreement with the accounting records?
- Have they received all information, explanations and returns necessary to form this opinion?

If they are not satisfied on any of these issues, the auditors must say so in their report. If the required disclosures for directors' remuneration have not been made by the company, the auditor must, as far as he is able to do so, give that information in his report. If the directors have prepared accounts in accordance with the small companies' regime, or prepared a strategic report or directors' report in accordance with small companies' exemptions when they are not entitled to do so, the auditor is required to state that fact in the audit report.

WHO CAN ACT AS AUDITOR?

The eligibility and qualifications for acting as an auditor are set out in company law. Eligibility is also governed by ethical considerations. An auditor must be independent of the company, so a person cannot be appointed as an auditor if he or she is:

- An officer or employee of the company or an associated company
- A partner or employee of such a person
- A partnership of which such a person is a partner.

APPOINTING AN AUDITOR

Where a company is required to have its accounts audited, it must appoint an auditor. An auditor must be appointed for each financial year of the company. A company's first auditors are usually appointed by the directors. For any financial year other than the first, the auditor of a private company will generally be appointed within 28 days of the earlier of: the date of circulation of a company's accounts to its shareholders, or the date for circulation.

For a public company, the auditor will generally be appointed before the conclusion of the accounts meeting at which their re-appointment is approved.

An auditor's term of office for a private company will usually run from the end of the 28-day period following circulation of the accounts until the end of the corresponding period in the following financial year.
For a public company, it will run from the conclusion of the accounts meeting to the conclusion of the next accounts meeting. If an auditor of a private company has not been re-appointed by the end of the next period for appointing auditors, the current auditors will be deemed to be re-appointed - except in certain circumstances.

CAN AN AUDITOR PROVIDE OTHER SERVICES?

Yes, subject to observing ethical standards to ensure that the auditor's independence is in no way impaired. There are stricter ethical rules for auditors of listed companies.

Read about BDO's audit services.

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OVERVIEW OF UK TAX REQUIREMENTS

This section gives a brief overview of the most relevant UK taxes. For key dates and deadlines relating to tax please see key corporate tax deadlines. For full details of UK taxes and the current rates, allowances and reliefs please see BDO's tax data guide.

The principal UK direct taxes are income tax, corporation tax, inheritance tax (IHT) and capital gains tax (CGT). While not strictly a tax, national insurance contributions (NIC) are also charged on salaries and an individual's self-employed earnings. In addition, certain indirect taxes are charged on transactions entered into by both individuals and businesses, such as VAT, property taxes and customs duty. The rates of tax are applied uniformly throughout England and Northern Ireland.

The Scottish and Welsh Parliament set their own respective income tax rates. For property purchase taxes, England and Northern Ireland have SDLT, Scotland applies a similar LBTT and Wales has its own LTT: while the rules are similar, the rates of tax are different (see Taxation of UK property). There are also a number of regional tax incentive schemes and exemptions to encourage investment in certain economically depressed parts of the UK.

WHO – runs the tax system in the UK?

The assessment and collection of taxes is administered by HMRC. There are a few regionally based tax offices dealing with taxpayers in the regions. There are also many specialist divisions and units, including an international division, which review the more technical areas of UK tax and deal with the more substantive or serious cases. All taxpayers subject to UK direct taxes are required to assess their own tax liabilities, and many are required to make returns. Returns and payments are normally made electronically.

The only truly local taxes in the UK are property taxes levied by the local authorities in whose area the property is situated (see Taxation of UK property).

INCOME TAX

Income tax is charged on the total income of individuals and unincorporated businesses in each tax year (running from 6 April to 5 April). In general, UK resident individuals are assessed on their worldwide income, whereas non-resident individuals are assessed on income arising from a UK source (subject to the terms of any applicable double taxation treaties). Special rules apply for UK residents who are legally domiciled outside the UK.

Profits from dealing in and developing UK land are taxable irrespective of the residence status of the landowner and regardless of whether or not the activity is conducted through a permanent establishment.

An individual's tax liability is calculated by aggregating all income, deducting relevant allowances and reliefs, and then applying the appropriate rates to income over the tax exempt threshold.

Read about BDO's private client services

CORPORATION TAX

Corporation tax is levied on the taxable worldwide profits of UK resident companies and on the profits of non-resident companies attributable to permanent establishments located in the country. However, as with individual landlords, corporate profits from dealing in and developing UK land are taxable irrespective of the residence status of the landowner and regardless of whether or not the activity is conducted through a permanent establishment.

A company is tax resident if it is incorporated, or its business is centrally managed and controlled in this country. Where a company is resident in both the UK and another country, if there is a double tax agreement between the UK and that country, it will need to be reviewed to determine whether there is a tie-breaker clause which dictates in which territory the company is to be treated as resident.

A company's taxable profits are based on its annual accounts. Corporation tax is normally payable nine months and one day after the end of the period for which a company prepares its accounts, although larger companies are required to pay their tax liability by instalments during the course of the year.

A UK company must normally submit a tax return within 12 months of its accounting year end. Companies usually have to file their corporation tax return online and pay any corporation tax and related payments due electronically (for example, by direct debit). The tax return, computations and – crucially – usually the accounts must be submitted in an electronic format called iXBRL (inline extensible business Reporting Language). Accounts can also be filed with Companies House in iXBRL format.

Read about BDO's iXBRL tagging services.

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CAPITAL GAINS TAX

Both companies and individuals are subject to tax on capital gains. Corporate gains are subject to corporation tax, whilst gains made by individuals and trusts are liable to CGT. CGT only applies to disposals of chargeable assets. The most frequently encountered chargeable assets are interests in land and buildings, shares, goodwill, intellectual property, and plant and machinery. The principal non-chargeable assets are sterling cash balances, motor cars, debtor receivables and an individual's main home. Different tax rates and reliefs apply depending on the nature of the asset sold, whether the gain is reinvested and, for individuals, on the level of their income in the same tax year.

For companies, individuals and trusts, the taxable gain is normally the difference between the disposal proceeds and the acquisition cost.

INHERITANCE TAX

IHT is chargeable on the value of the estates of deceased persons and on certain lifetime transfers. For those domiciled in the UK, their worldwide estate is chargeable. For non-UK domiciliaries, generally only UK assets plus interests in UK residential property held in offshore structures are chargeable. The tax is also payable on certain lifetime transfers to trusts, companies under the control of five or fewer people, and some transfers made by such companies. The IHT rules are complex and individuals should seek advice from BDO LLP, especially with regard to protecting offshore assets from the UK IHT net if there is an intention to come to the UK to live for some time.

Read about BDO's private client services.

NATIONAL INSURANCE CONTRIBUTIONS

NIC is a social security charge on earnings. Contributions are payable by employers, employees and self-employed people.

Businesses (or individuals) employing individuals to work permanently in the UK will have to deduct NIC from the salary paid, and pay the NIC element to HMRC. There are exemptions for short-term periods of employment where the employing business is based outside the UK. However, even if a business does not have a permanent establishment in the UK, it may be necessary for payroll deduction arrangements to be set up.

There are specific NIC reliefs for employers: a £3,000 annual allowance against NIC payments, and exemptions for lower paid employees under age 21 and lower paid apprentices under age 25. The UK has a number of reciprocal arrangements with other countries that operate social security systems.

Read about BDO's employment tax services.

VALUE ADDED TAX AND CUSTOMS DUTIES

VAT is a sales tax charged on the supply of goods and services provided in the course of doing business in the UK. Consequently, the real burden of the tax normally falls on the final consumer, with the intervening businesses acting as collecting agents for the Government.

In general, when the turnover of a business exceeds the registration threshold, it will have to register for VAT, charge VAT on the supplies it makes, and pay it to HMRC. However, it is possible for companies in a UK group to elect for transactions between them to be free from VAT. All non-UK established businesses making taxable supplies of goods or services in the UK will need to register for VAT – ie they are subject to a nil threshold.

Businesses that are required to charge VAT on the goods or services they sell can recover the VAT incurred on the purchases made in generating those sales. However, VAT cannot be recovered on purchases used to generate sales that are exempt from VAT. Input VAT recovery is limited to VAT on costs relating to taxable supplies (ie sales of standard-rated, reduced-rated or zero-rated goods or services). Where a business makes both taxable and exempt supplies, the VAT on general business overhead costs is apportioned so part of the VAT can be recovered.

The net amount of VAT, after deducting recoverable VAT, must be paid to HMRC on a regular basis (usually quarterly) supported by a tax return – these must all be submitted digitally from April 2019. Large businesses may be required to make monthly payments on account.

VAT is also charged on the importation of goods into the UK from non-EU countries, the receipt of many international services in the UK, and the acquisition in the UK of goods from other EU member states.

The EU is a customs union and, accordingly, customs duties are payable on many goods at the point the goods are first imported from outside the EU and cleared (see Chapter 9).

This position will change when the UK formally leaves the EU. It is not yet clear how the UK's future trading relationship with the EU will evolve, although it now seems likely that a transitional agreement will mean that there are few practical changes before 2021.

The UK Government is seeking to maintain easy access to European markets for UK based businesses after the proposed transitional arrangements end.

Read about BDO's VAT and indirect taxes services.

A French construction group sought to open their first UK branch. With this aim in mind, the firm needed to understand the various tax implications of expanding into the UK.

BDO assisted the firm with the preparation of tax returns, understanding VAT and ensuring the company met UK employment tax obligations. With the help of BDO, the company was also able to implement arm's length transfer pricing between their French head office and the UK establishment.

Having navigated the UK tax landscape as a first-time entrant, the company is now looking to expand its UK operations further.

FINANCIAL AND MANAGEMENT REPORTING, AUDIT AND TAX

LAND TAXES

SDLT (or LBTT in Scotland and LTT in Wales) is charged on transactions relating to land and buildings in the UK (see Chapter 7).

Read about BDO's tax services.

For more detail on the most important tax features for businesses operating in the UK, please request our Doing Business in the UK tax guide from your local BDO contact

MANAGEMENT REPORTING AND BUSINESS INFORMATION

As businesses become established and begin trading, they require a different range of accounting, advisory and compliance functions to support their growth. Management reporting and timely business information is essential.

- Relevant and timely management information
- Clear performance reporting
- Compliance with UK regulations
- Access to experts when required
- Flexible solutions to support as the business changes.

Read about BDO's tax compliance and reporting services.

A major overseas snack food business set up a subsidiary in the UK, as part of its market entry into both the UK and European markets. BDO were invited to provide a full outsourced accounting, tax and compliance service for the business, on a phased basis.

During the pre-trading phase BDO's work involved:

- Confirming charts of accounts, providing due diligence on the systems and procedures
- Setting up company and compliance as required (company secretarial, payroll, year-end reporting, management accounts, VAT)
- Setting up financial reporting.

Phase two involved:

- Building links to the stock system
- Undertaking VAT, payroll and other ongoing compliance
- Ongoing financial reporting, including KPIs and monthly reporting
- Preparation of year-end financial statements and dealing with audit queries in relation to the following year.

Later phases have consolidated this work and helped facilitate the continued growth and overseas expansion of the business.

BDO provides businesses with support, at all stages of their lifecycle, from start-up to mature businesses, to run their operations, and help them realise their goals through BDODrive.

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