WELCOME ASHORE

A guide to investing in the UK for Japanese companies
Welcome Ashore
A guide to investing in the UK for Japanese companies

Foreword

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2. Entry strategies
3. Mergers & acquisitions
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The UK remains one of the most attractive destinations for Japanese investment

Deloitte foreword
As a world leader in innovation, with a highly skilled workforce and a competitive tax regime, many businesses look to the UK for growth opportunities.

At Deloitte, we work with many Japanese individuals, organisations and institutions who are attracted by the UK’s reputation as one of the most open and resilient economies in the world.

This guide is a practical document providing valuable guidance to Japanese companies setting up in the UK. The contents have been developed based on Deloitte’s experience of having assisted a large number of organisations to establish and grow their footprint in the UK.

We hope this guide will give you a broad introduction to the key considerations when looking to expand into the UK, such as entry strategies, corporate structure, taxation, talent and immigration, real estate and corporate finance matters.

We can guide and advise on each stage of the journey and would be very happy to discuss any aspect of this guide with you in more detail.

Sharon Thorne
Managing Partner
Global, Deloitte UK
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JAPAN HAS LONG BEEN ONE OF OUR KEY INVESTMENT AND TRADING PARTNERS, BUILDING ON THE HISTORICAL TIES BETWEEN OUR TWO COUNTRIES, OUR SIMILAR POSITION AS ADVANCED TRADING NATIONS AND THE OFTEN COMPLEMENTARY SKILLSETS

Department for International Trade foreword

The UK is the number one destination for foreign direct investment in Europe and also for investment by Japanese firms. This is because our offer to Japanese investors is one of the strongest in the world – English speaking, a transparent and robust legal system, world-leading skills and research capabilities, and a stable business environment. The UK government has also introduced one of the most ambitious packages of policies, business incentives, tax credits, tax rate reductions and visa support in the world to ensure Japanese investors make the UK their global partner of choice. The recent World Bank rankings put the UK at number six in the world for the ‘Ease of Doing Business’ – the highest major nation in Europe.

Department for International Trade is the Government Department that provides direct support to businesses, works closely with partners such as Deloitte to ensure Japanese investors are given the help and support they need to set up or expand their business in the UK.

Whether you are a start-up, medium-sized business, a corporate or institutional investor, DIT and Deloitte can support the realisation of your international business ambitions.

Support for investors does not end once you are established in the UK. Japanese companies can benefit from the same support to increase exports as domestic firms. DIT can provide bespoke market research, news of trade opportunities and support to win high value contracts, opening up possibilities to trade across the world.

To find out how we can help you to set up your company in the UK visit www.gov.uk/dit or contact one of our sector-based teams in Tokyo or Osaka at investinuk.jp@fco.gov.uk

Chris Heffer
Director of Trade and Investment
British Embassy Tokyo, DIT Japan
1. INTRODUCTION
THE UK, AND LONDON IN PARTICULAR, CONTINUES TO BE A DESTINATION OF CHOICE FOR JAPANESE COMPANIES WITH GLOBAL AMBITIONS

The UK is home to one of the largest clusters of multinational companies in the world, across all sectors. With a robust legal system; competitive tax rate system; people with talent and skills; a transparent regulatory system and ideal geographical location between the USA and Asia, the UK remains an attractive environment for setting up a presence.

Despite challenges across world markets and the recent uncertainty caused by the UK’s vote to leave the EU, the UK is a major player in the global foreign direct investment (FDI) arena. The UK’s decision to leave the EU will inevitably cause a period of uncertainty around areas such as immigration and trade policy. Negotiations to exit the EU will take at least two years and during this negotiation period, the UK continues to be bound by all existing EU regulations.

While the UK market is highly competitive, new entrants with a clear vision can, and do, find opportunities to establish themselves in the country and build a successful business.

The preferred destination in Europe for Japanese FDI
Japanese inward investments stock into the UK in 2013 represented 60.5% of total Asian investment stock into the UK (£40.7bn) according to Office of National Statistics.

Between 2010-2015, DIT recorded a total of 563 inward investment projects from Japan. These projects are expected to have brought with them over 16,000 new jobs and safeguard 13,000 jobs. The UK continues to be the preferred destination for Japanese FDI in Europe at an average of 34 projects per year for the period 2010-2015, compared with Germany at 33 projects and France with 13 projects according to the Financial Times FDI Markets. London is the top destination region with 181 projects landed, followed by the South East with 77 projects and the North East in third place with 44 projects. Advanced Engineering is the leading sector with a total of 243, followed by Life Sciences and Energy, Environment & Infrastructure.

A road map for establishing a presence in the UK
To establish a presence in the UK, a number of actions must be taken. Many of these concern compliance with regulations and regulatory processes. Companies must satisfy local regulators that they are well prepared and capable of operating a successful business in the UK.
Grants or other incentives may be available depending on the specific location chosen. Certain powers (including over some taxes) have been devolved to Scotland, Northern Ireland and Wales.

Please note that the information in this publication is accurate as of September 2016.
2. ENTRY STRATEGIES
BEFORE MAKING THE DECISION TO EXPAND INTO THE UK, A BUSINESS MUST CREATE A POSITIVE INVESTMENT CASE AND DEFINE AN APPROPRIATE ENTRY STRATEGY

Developing the investment case
A business needs to have a high degree of confidence that it will drive sustainable profits from entry into a new market, and have a realistic view of the investments required to support the business model. The investment case is the most important component of an expansion strategy.

As a result, an investment case is necessarily comprehensive, covering a broad range of factors and a number of key questions should be addressed:

- What is the size of the potential market share, and is there a realistic opportunity to capture a meaningful share?
- Is the product/service relevant to an attractive target market?
- What are the expected cost of sales (including cost of goods and marketing)?
- What is the growth profile, and how quickly will the operation be profitable?
- What investment is required in the immediate term and in the future to grow the business (including premises, personnel)?
- What risks exist to market entry, and does a reasonable mitigation strategy exist?

Developing a clear view of the questions posed above allows a business to analyse its investment case. There is no blueprint for this stage, and no two businesses will assess an investment case and reach the same conclusion.

The attractiveness of an investment case will depend on a number of factors, notably the availability and cost of capital, risk appetite, the strategic importance of the market and the investment horizon.

A business can continue to adjust the variables in the investment case in order to strike a balance between its strategic requirements and an attractive financial return.
Defining a market entry strategy

Once a view of the market has been created and the intention to expand has been confirmed, a market entry strategy must be defined. There are a number of models that Japanese businesses could pursue in order to enter the UK market, with the most appropriate depending on the appetite to take on risk.

In assessing which model is most suitable, a business must consider the strategic importance of the target market, the level of investment it is willing to make and the confidence it has in projected business performance.

Low risk, low reward

Contracting with an import agency and/or in-market distributor represents a low-risk market entry strategy. This model does not require a business to have any in-market capabilities, and relies on a partner’s market knowledge and existing relationships to capture market share. Whilst low risk, this model also offers less upside for a business, resulting in margin sacrifice.

Shared risk, shared reward

Developing a joint venture with a domestic player could increase the upside for a Japanese business as both parties are equally incentivised to maximise growth. In this model, the business benefits from the strengths of its partner, including existing trade relationships, distribution networks and possible economies of scale. This strategy requires a business to invest more significantly into the venture, an investment that could take many forms: financial, infrastructure, marketing or personnel.

High risk, shared reward

In highly strategic target markets, an international business may look to gain a firmer foothold by developing a significant presence in-market. There are two options to consider: organic development or expansion through acquisition. Whilst M&A activity will give a business a faster route to market, this is likely to require significant investment. The benefits of slower, organic development include the ability to design a presence that suits a specific business, and the ability to control the pace and direction of growth. This is particularly attractive when no viable acquisition targets exist.
The table below provides an overview of the benefits and challenges of these common entry strategies. In this context, development of the market entry strategy will often be an iterative process, defined in conjunction with the investment case.

### Market entry choices

<table>
<thead>
<tr>
<th>Organic</th>
<th>Inorganic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract with an import agency</strong></td>
<td><strong>Build from scratch</strong></td>
</tr>
<tr>
<td><strong>Contract with a distributor</strong></td>
<td><strong>Joint Venture (JV) with a UK company</strong></td>
</tr>
<tr>
<td><strong>Contract with local manufacturer</strong></td>
<td><strong>M&amp;A</strong></td>
</tr>
</tbody>
</table>

#### Appropriate for:
- **Organic**
  - Slow growth markets with small volumes that do not justify significant investment
  - Slow growth markets with small volumes that do not justify significant investment
  - Less attractive markets which do not yet support large investments
  - Markets where goal is to scale up rapidly, with lower investment than acquisition
  - Markets where significant opportunities exist and acquisition is not an option
- **Inorganic**
  - Markets where goal is to scale up rapidly; attractive options must exist

#### Challenges:
- **Organic**
  - High cost to serve, which diminish gross margins
  - Reliance on distributor
  - Lower degree of control over distribution strategy and cost
  - Lower degree of control and oversight over product quality
  - Risk of quality or supply issues
- **Inorganic**
  - Potential conflicts with partner and misalignment of strategic objectives
  - High level of investment required with no guaranteed returns
  - Identifying a suitable target aligned with organisational objectives
  - Integration risks
  - Knowing the acquired company
Defining the roadmap
With a positive investment case developed and the target entry strategy defined, the next step is creating the expansion roadmap. This process will help a business develop a realistic understanding of the practical requirements to realise international expansion.

The roadmap is a product of both the investment case and the market entry strategy, reflecting the hands-on application of both. Additionally, creating a clearly defined roadmap will aid understanding of the success of market entry during the crucial first months and is important in identifying the lead times involved and the significant milestones along the way.

Considerations in developing a roadmap

Localisation
- Key considerations include the size and skill of the labour pool available, the cost of labour, location of key clients and partners and location of major transport links
- Other local factors that should be addressed range from language to appropriate pricing and marketing

Distribution / logistics
- Establishing a distribution strategy, whether direct, via agents, field sales force or digital / web, will have a bearing on the roadmap
- Partners may need to be found and appointed and distribution/retail agreements may need to be signed

Route to market
- A detailed entry strategy is essential. The strategy should include key milestones and vision for the overall proposition. It will also describe the type of market entry (organic or inorganic)

Market Entry Roadmap

Growth profile
- It is important to model the expected growth profile and provide detailed information on cash requirements for the initial 12 months
- Additionally, top level analysis should be conducted to demonstrate best and worst case scenarios

Regulation
- Certain industries, particularly financial services, are regulated and in order to own and operate businesses in these areas investors need to apply to regulators for approval to operate a regulated business

Market analysis
- The roadmap will be influenced by the market analysis
- The market structure, segmentation and behaviour, barriers to entry and potential business risks, size of the total and addressable market and market penetration will all have a bearing on the roadmap
The diagram below illustrates how the investment case and market entry strategy come together as part of an iterative process, in order to create the roadmap. For the purpose of this guide, we will focus on Japanese businesses looking to gain a firmer foothold: looking at expansion through M&A transactions and organic development through building a company from scratch.

Given the open nature of the UK, a number of companies will identify mergers and acquisitions as their chosen route to market. In the next chapter we will provide further details on the M&A process.

The investment case and market entry strategy are closely related.
3. MERGERS & ACQUISITIONS
Overview
The UK has a very mature M&A market and is one of the most popular destinations for Japanese investment. Some of the key factors fuelling the popularity of the UK as a destination for Japanese investment are:

- A resilient economy supported by a record of growth and strong performance relative to the rest of Europe.
- Overseas companies holding significant cash or access to credit, with increased impetus on management to either earn a better return or distribute cash to shareholders.
- The UK is a very well-developed market, with world leading financial and pharmaceutical industries, strong manufacturing capabilities and globally renowned consumer brands. In recent years these sectors have seen a lot of M&A activity.
- Relative to some other European nations, the UK has a very strong business and legal environment, including an established set of rules and legal precedents around M&A transactions, making it an attractive place to invest.
- The UK has a favourable tax regime, with the Corporation Tax rate of 20% (reducing to 17% by 2020) being one of the lowest in the G20. The UK’s R&D tax regime and Patent Box legislation also give significant benefits to companies that undertake research or product development.

Finding an acquisition target
In many cases, the potential acquirer and target already know each other and need no introduction. Where no such relationship between acquirer and target exist, the UK has an active broking community that can introduce deals, conduct acquisition target searches to identify opportunities and provide execution support.

Auction processes are a relatively common feature of the UK M&A market. Most corporate and Private Equity companies are comfortable being involved in such processes and the UK has a well-established and sophisticated Private Equity and Venture Capital community.
Regulated industries and acquisition process
Certain industries, particularly financial services, are regulated. To own and operate businesses in these areas the investor needs to apply to regulators for approval.

Other industries that have a significant degree of government oversight and regulation are healthcare, transport, utilities and telecommunications.

Takeovers and mergers involving companies listed in the UK have to comply with the City Code on Mergers and Takeovers.

Approvals processes
Most private company transactions in non-regulated industries will not require any special approvals from the UK authorities, except for reviews by the relevant competition authorities. Mergers and acquisitions involving companies operating in the UK market can be subject to review by the UK Competition and Market Authority (CMA).

The UK government has generally been open to foreign ownership of prominent British companies. In recent years a number of large British companies, including those in regulated sectors, have been acquired by overseas buyers, including a number of Japanese groups.

Due diligence
Although the corporate governance environment in the UK is generally of a high standard, due diligence is still valuable, and very much recommended.

Financial due diligence exercises in the UK typically cover historic and current trading and are forward looking, analysing forecast performance. Due diligence of this type is mandated on most M&A transactions in the UK.

Vendor due diligence, where a vendor engages a due diligence provider to prepare an independent due diligence report for the benefit of potential acquirers, is also common in the UK, particularly in auction processes.

Due diligence can be useful to help parties identify risks and opportunities in the transaction, so that they can be managed in the valuation, deal structure, contract and integration planning. For example, differences in industry practice, accounting standards, tax regulations and employment law can mean that the way a business recognises its revenues and costs in the UK could be different from the way they would be recognised in other jurisdictions, and it is important to understand this before committing to the transaction.

In the UK a ‘locked box’ pricing mechanism is a common approach to calculating the price paid for equity in a private M&A transaction. Such a mechanism is frequently used in place of completion accounts, albeit completion accounts are also commonplace.
Commercial due diligence
Commercial due diligence is very common in the UK: analysing market trends, the competitive environment, and the target’s position within its marketplace. The market for commercial due diligence services is well developed in the UK, with a large number of sophisticated advisers able to offer such services.

Legal due diligence
Legal due diligence is typically performed in M&A transactions in the UK. The UK has a very sophisticated legal sector, with a large number of internationally regarded law firms. In addition to performing legal due diligence, lawyers play a crucial role in writing contracts and gaining approvals where required.

Other forms of due diligence
There are a number of other forms of due diligence, apart from those listed above, and these are summarised in the following table:

<table>
<thead>
<tr>
<th>Other forms of due diligence</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources (HR)</td>
<td>HR planning is a critical part of ensuring the success of a deal, for example, identifying key staff and understanding how they are incentivised</td>
</tr>
<tr>
<td>Information Technology (IT)</td>
<td>Systems are likely very different from the ones used abroad. Some UK companies use a patchwork of legacy systems built up over years, which may need significant capital expenditure in order to update or integrate with the systems of the acquirer</td>
</tr>
<tr>
<td>Operations</td>
<td>Understanding how the business operates and to what extent there is potential to improve and generate synergies with the acquirer</td>
</tr>
</tbody>
</table>

Obtaining finance
London continues to be a leading global financial services centre, and UK-based businesses have access to a large number of UK, Japanese and global banks, offering a full range of banking services, as well as debt, equity and other capital market solutions. The UK has a substantial domestic market in equities and bonds, and plays a significant role in the issuance and distribution of international bonds and foreign equities.

Whilst there are many factors to consider before entering into an M&A transaction, it is potentially a way to scale up rapidly in a particular market.
4. CORPORATE STRUCTURE
JAPANESE COMPANIES USUALLY STRUCTURE THEIR OPERATIONS IN THE UK AS EITHER A UK ESTABLISHMENT OR AS A COMPANY INCORPORATED IN THE UK

This section focuses on the most commonly encountered corporate structures for Japanese companies looking to enter the market independently through organic growth. The two most common corporate structures are the UK incorporated company and UK Establishment (often referred to as a UK branch or representative office). For some types of business – for example, private equity or other investment firms – an alternative corporate structure, such as a partnership, may be more appropriate.

Registration

A Japanese organisation wishing to set up a UK Establishment, such as a branch or representative office, must register it with Companies House. Registration is not required if the business does not have a physical presence in the UK.

A UK company must be registered at Companies House as part of the process of incorporation.

UK Establishment of a company incorporated outside the UK

A company incorporated outside the UK (an ‘overseas company’) may set up a UK Establishment in the UK. UK Establishments are governed by the Overseas Companies Regulations 2009 (which are made under the provisions of the Companies Act 2006).
Registering a UK Establishment

A Japanese company must establish a permanent physical presence in the UK before it registers its UK Establishment with Companies House. Having established a physical presence it must then register it within one month.

Prior permission to register is not required. However, there are restrictions on the use of certain words and expressions in business names. Advice should be taken on whether a particular proposed corporate name is likely to be accepted by the Registrar before a formal application for registration is submitted to Companies House.

A Japanese company setting up an Establishment in the UK must submit to Companies House, with its formal application for registration:

- A certified copy of its constitutional documents.
- A copy of its latest financial statements, if the company is required by Japanese laws to prepare, audit and disclose financial statements.
If these original documents are not in English, certified English translations must be provided.

The application for registration is submitted on a UK Establishment Registration Form (OS IN01), which requires the following information:

- Details about the company (including corporate name, trading name if different from its corporate name, official or registered company number, jurisdiction, governing law, legal form, capital structure and statutory accounts obligations).

- Details of the directors and secretaries (names, residential addresses, service addresses if applicable, and other personal details).

- The address of the UK Establishment, the date on which it commenced activities and a brief explanation of its activities.

- Details of the UK resident individual (if any) nominated to accept official correspondence on behalf of the company.

- Details of the individual(s) (wherever resident) with authority to represent the company’s UK Establishment.

A registration fee is payable. This is currently £20 for registration in approximately five business days or £100 if same day registration is required.

Once the required documents have been filed and accepted, the Registrar of Companies registers the UK Establishment and issues a certificate. The certificate provides evidence of the registration and states the unique registration numbers assigned to the overseas company and its associated UK Establishment.

**Continuing obligations of UK Establishments**

After registering a UK Establishment with Companies House, the company is required to submit annual financial statements to Companies House.

The accounts that must be filed at Companies House (and which will be made available for inspection by any member of the public) are those of the overseas company as a whole, and not those relating only to the activities of the UK Establishment. The rules vary regarding the form and content of the accounts that should be filed. The rules depend on whether the company is required, in Japan, to prepare accounts, to have them audited and to disclose them publicly.

Note that the rules relating to the accounts preparation and disclosure for financial institutions with a UK Establishment are slightly different, but an explanation of those rules is beyond the scope of this document.
Statutory changes (including changes to details provided in the initial UK Establishment registration papers) must be notified to Companies House on an appropriate form. These include changes to details of the company directors, address changes, and changes to the company’s name or constitution.

The accounts and details of changes must be submitted to Companies House within certain statutory deadlines. Information about deadlines is available from the Companies House website.

UK Establishments that constitute Permanent Establishments for UK tax purposes have an obligation to notify the UK tax authorities of their chargeability to UK tax, and to file tax returns. Further details are available in the Taxation section.

A UK incorporated company
The legislation governing the incorporation of companies in the UK is the Companies Act 2006. There are several different forms of company structure, but a foreign-owned subsidiary incorporated in the UK is most usually a company (either private or public) limited by shares.

The principal differences between public and private companies are:

- Only public companies may offer their shares to the public and have their shares traded on a recognised stock exchange. Private companies cannot offer their shares for sale to the public.

- Statutory requirements for public companies, including accounts reporting and disclosure requirements and capital maintenance rules, are stricter and more extensive than those for private companies.

- There is a minimum paid up share capital requirement of £12,500 (£50,000 nominal capital issued and at least a quarter paid) or the equivalent in euros for a public company. There is no minimum capital requirement for a private company.

When a Japanese company incorporates a subsidiary company in the UK, the subsidiary is usually formed as a private company. However, incorporation as a public company may be more suitable when there is an intention in the foreseeable future to list the company’s shares or debt on a stock exchange or offer its shares or debt capital to the public.

Registration of limited companies
The registration requirements are similar for both public and private companies. Registration documents may be submitted to Companies House in either printed (hard copy) form or in electronic form for review and approval, together with a statutory fee (currently between £12 and £100, depending on the delivery method and the required speed of registration), prior to incorporation being effected.
The documents that must be filed at Companies House (together with the statutory fee) are:

- The proposed constitution (memorandum and articles) of the company.
- A statutory form (IN01), providing, among other things, the proposed name of the company, details of the first officers (directors and company secretary), the location of the registered office and the initial amount of share capital. The identity of any individual(s) and certain types of legal entity with significant control (whether direct or indirect) over the capital or operation of the company must be provided on form IN01 in order to disclose for transparency purposes, who controls the new company or, ultimately, the wider corporate group that sits within.

Electronic registration eliminates the need to obtain signatures on various documents, but certain subscriber signatory specific identification details must be supplied, for security purposes.

On registration, Companies House issues a certificate of incorporation, showing the company’s registered name and its unique registration number. The company is then formally incorporated.

**Continuing obligations of a UK incorporated company**

Once registered, the company is subject to various ongoing obligations. These include requirements to:

- Maintain certain statutory registers (for example, a Register of Members and a Register of Directors) and a PSC Register or people and/or legal entities with significant control or influence over the company (“PSCs”).
- Maintain a registered office.
- Notify Companies House of any statutory changes, including the appointment/resignation of directors, changes in their personal details, issues of additional shares and changes to the company’s constitution or company name.
- Submit a Confirmation Statement to Companies House once a year (containing, among other things, details of the company’s registered office address, principal activity, its directors, share capital and shareholders and PSC(s) (if any)).
- Prepare and submit annual accounts to Companies House. The form and content of the accounts will be determined, among other things, by the status of the company (whether private or public), the scale of its operations, the corporate group it is part of, the nature of its activities and any associated regulatory requirements.

UK companies also have ongoing obligations to the UK tax authorities, which are outlined in the Taxation section.
Accounting, filing and auditing requirements
Public limited companies must file annual accounts, together with many additional details, with Companies House, where they are publicly available. Unless the company is a small or medium-sized enterprise (SME*), the accounts will include a profit and loss account, a balance sheet signed by a director, an auditor’s report signed by an outside auditor, a directors’ report signed by a director or the company secretary and notes to the accounts. No public company, regardless of size, can qualify as an SME for these purposes.

Private limited companies are subject to the same requirements except for special provisions applicable to SMEs.

UK businesses must follow either EU-adopted International Financial Reporting Standards (IFRS) or the Financial Reporting Standards developed by the UK Accounting Council – FRS 100, 101 and 102.

Simplified disclosure is available for many SMEs using Section 1A of FRS 102.

For periods commencing on or after 1 January 2016, UK law has changed as a result of the EU Accounting Directive, significantly increasing the thresholds for small and medium-sized companies.

EU accounting and audit rules have been transposed into UK law and standards. As a result, they will continue to apply even after the UK has left the EU unless and until the government and/or FRC propose a change to UK law and standards.

* For these purposes, a company is an SME if it and other group companies have:

• Staff of fewer than 500 people, and

• An annual turnover of no more than €100m and/or an annual balance sheet total of no more than €86m
5. TAXATION
COMPANIES OPERATING IN THE UK MUST COMPLY WITH UK TAXATION RULES

In the UK, the most important taxes are generally:

- Corporation tax on company profits;
- Value Added Tax (VAT), which is a sales tax;
- Pay As You Earn (PAYE) and National Insurance Contributions (NICs).

PAYE is a tax on the earnings of employees. It is deducted from pay by the employer, and paid to the tax authorities. NICs are social security payments, payable by employees and employers to the tax authorities. NICs payable by employees are deducted from pay by the employer, together with PAYE income tax, and paid to the tax authorities.

Useful introductory information about UK taxes is available on the HM Revenue & Customs (HMRC) website, at: **www.gov.uk/business-legal-structures/limited-company** and at **www.gov.uk/government/organisations/hm-revenue-customs/services-information**

**Corporation tax**

Companies pay corporation tax on their taxable profits. Taxable profits are based on the company’s reported profit in its annual financial statements, but with some adjustments. These adjustments could relate to one or more of a number of UK tax incentives – for example, to support innovation or encourage investment in capital assets.

**Research and development (R&D) tax incentives**

Tax incentives for R&D expenditure are available to large companies and SMEs*. For large companies, this takes the form of an enhanced deduction, at a rate of 130% of qualifying R&D expenditure, from taxable income. If the company is an SME, the tax deduction is 225% of the qualifying expenditure. SMEs that do not have sufficient profits to absorb the enhanced deduction can surrender the enhanced deduction for a cash refund of up to 14.5% of the enhanced deduction, depending on the level of current year losses.

* For these purposes, an SME is defined as an entity with staff headcount of less than 500 and satisfies at least one of the following conditions:

- Turnover not exceeding €100m
- Balance sheet total not exceeding €86m

If the entity is part of a group, the above thresholds must be applied by reference to the group.
An above-the-line R&D tax credit equal to 11% of qualifying expenditure is available for large companies. The credit regime was initially optional but fully replaces the existing large company scheme for expenditure incurred on or after 1 April 2016. A credit, up to the PAYE/NIC liabilities of the company’s R&D staff, will be repayable in cash to companies with no corporation tax liabilities.

**Intellectual Property (Patent Box)**

Broadly, the Patent Box regime allows for profits attributable to qualifying patents held by a company to be taxed at 10% instead of the main UK corporation tax rate of 20%. In order to qualify for the regime, a company must first demonstrate that it holds qualifying patents – these include patents granted by the UK Intellectual Property Office and the European Patent Office. The company must then demonstrate that it meets the substance requirements for the regime. An election is required in order to take advantage of the regime.

Worldwide income attributable to qualifying patents can then fall into the regime. Detailed calculations need to be performed to determine the amount of profits that qualify to be taxed at the reduced 10% rate.

The new Patent Box regime is effective from 1 July 2016, running in parallel with those companies grandfathered under the current regime, and adds an extra step to the calculation of Patent Box benefit. In broad terms, it limits the benefit by reference to a ‘nexus equation’ that is dependent on the company’s expenditure on developing, licensing or acquiring IP. Companies electing in to the Patent Box regime are therefore required to track this IP / R&D expenditure from 1 July 2016, and trace it to the creation of specific IP assets, products or product families, in order to calculate the Patent Box benefit.

**Liability for corporation tax**

<table>
<thead>
<tr>
<th>UK incorporated company</th>
<th>UK establishment</th>
</tr>
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<tbody>
<tr>
<td>Corporation tax is payable on the worldwide profits of the UK company, but with adjustments. For example, an election can be made to exempt from UK tax the profits of an overseas branch.</td>
<td>Permanent Establishment corporation tax is payable on UK attributable profits only.</td>
</tr>
<tr>
<td>The UK has double taxation agreements with many countries.</td>
<td>The overseas company does not have a taxable presence in the UK and is not subject to UK corporation tax. However, if it earns income in the UK, such as interest or rent, this may be liable to income tax.</td>
</tr>
</tbody>
</table>
Capital gains arising from the disposal of capital assets at a profit are subject to tax, assuming an exemption does not apply, at the same rate as trading profits, and this tax is included within the overall computation of corporation tax payable to HMRC.

**Rate of taxation**

The main rate of corporation tax is 20% (from 1 April 2015). The rate reduces to 19% from 1 April 2017 and further reduces to 17% from 1 April 2020.

**Trading losses**

If trading losses are incurred, these can be used in the following ways:

1. The loss may be offset against any other non trading profits of the company in the same year.

2. The loss may be carried back one year to be offset against any profits of the company arising in the previous year.

3. The loss may be carried forward and offset against profits in a future year that arise from the same trade. Losses made from 1 April 2017 may be carried forward and offset against any profits of the company in a future year. However, from 1 April 2017, for profits in excess of £5 million, only 50% of profits will be available for offset. Restrictions may apply on the ability to carry forward a trading loss into a future year where there is a change of ownership of the company and within three years (before or after), a major change in the nature and conduct of the company’s trade.

4. Another option is to surrender losses in the year through group relief. From 1 April 2017, it will also be possible to surrender losses through group relief in a future year. Group relief allows losses of a company in a UK group to be surrendered to, and used by, any other UK company or UK Permanent Establishment in the group (broadly companies are considered to be part of a UK group where one is a 75% subsidiary of another or both are 75% subsidiaries of the same corporate parent).

**HMRC filing requirements**

A UK incorporated subsidiary or a UK Permanent Establishment of an overseas company must provide HMRC with certain initial information within three months of starting up in business.

A corporation tax return must then be submitted to HMRC annually within 12 months of the end of the entity’s financial year. Returns must be filed electronically, with financial statements submitted in line Extensible Business Reporting Language (iXBRL).

For larger companies, corporation tax is payable in quarterly instalments and the first payment is made before the end of its financial year. The corporation tax liability of smaller companies must be paid within nine months and one day from the end of the entity’s financial year.

HMRC may charge penalties for late payment and interest on overdue amounts.
Transfer pricing
UK transfer pricing rules require that transactions between affiliates (such as an overseas parent company and its UK subsidiary company) should be conducted on an arm’s length basis. This means that the pricing of transactions between them should be the same as if the two affiliates were completely independent from each other.

The rules equally apply to UK-UK transactions.

Where transactions between affiliates are not made on an arm’s length basis, an adjustment to the prices may be required for corporation tax purposes.

Base erosion and profit shifting (BEPS)
The Organisation for Economic Cooperation and Development (OECD) and G20 countries, which include the UK, launched an Action Plan on base erosion and profit shifting (BEPS) in 2013.

The aim of the BEPS project is to address concerns that current principles of national and international taxation were failing to keep pace with the global nature of modern trading and business models, in particular, a perception that existing rules give businesses too much opportunity for arbitraging tax rates and regimes.

The outcome of the Action Plan is leading to changes to international tax rules, such as Double Tax Treaties and the OECD’s Transfer Pricing Guidelines, and also recommendations from the OECD for tax legislation that should be adopted by countries in their national tax law.

Thirteen reports were issued on 5 October 2015. Further work will be undertaken in some areas. The timing for the multilateral instrument, which is aimed at changing Double Tax Treaties, is hoped to be the end of 2016.

The agreed BEPS actions are starting to be implemented by countries to varying degrees from 2016 onwards.

Employment tax
PAYE and NICs
The UK taxes the earnings of ‘migrants’ (a UK government term for individuals obtaining permission to move to the UK) who live or work in the UK. There are statutory rules for determining whether an individual is resident in the UK (and, if so, whether resident in Scotland or the rest of the UK). A UK resident generally pays income tax on worldwide earnings. A non-resident working in the UK pays tax on earnings attributable to duties performed in the UK, so far as they are not exempt under a double tax treaty. Social security (NICs) charges may also apply, subject to possible overrides for employees who remain insured abroad while on UK secondment.

The UK operates a tax withholding system called PAYE. It is the employer’s or UK host employer’s responsibility to report PAYE information, as well as deduct tax from the employee’s income and remit the funds to HMRC.

In addition, certain ‘benefits’ enjoyed by the employee are subject to income tax, such as the private use of a company owned car and company payments for private medical insurance. In addition to the annual statement of gross pay and tax deducted (P60) the employer must also provide the employee with a statement of the benefits provided from which tax was not deducted, as notified to HMRC on the P11D.
Migrants who are seconded to the UK for a ‘temporary purpose’ (not more than two years) may be allowed certain reliefs from liability to income tax, such as tax relief for:

• The cost of accommodation in the UK.

• Subsistence and travel expenses in the UK.

(In both cases attributable to working at a temporary workplace.)

An individual who is not domiciled in the UK can enjoy favourable tax treatment in respect of income and assets outside the UK. The benefits of being non-domiciled include relief from tax on:

• Income from employment for work days outside the UK for up to three years.

• The cost of flights for the employee to and from their home country (and limited trips for accompanying family members).

Domicile is a concept distinct from residence.

Unless given a specific exemption, an individual who is on assignment in the UK for a temporary purpose must complete an annual personal tax return and submit it to HMRC, disclosing the full extent of their income.

Individuals who are assigned to the UK for a temporary purpose may be exempted from UK social security payments (NICs) for the first 52 weeks of their work in the UK if they are from a non-treaty country outside of the European Economic Area (EEA) or Switzerland.

The employer and tax affairs of migrant workers
When an organisation is planning to set up a company or Establishment in the UK, it will have to deal with various issues relating to migrant workers. Issues to consider are:

• Compliance with PAYE and NIC requirements.

• Securing cost efficient accommodation and salary arrangements for the employee.

• Issues relating to visitors to the UK on business visitor visas, and ensuring that the work they do in the UK is permitted by the visa regulations.

• The tax implications of assignments of non-UK residents to carry out work in the UK.

• Supporting the employee by providing information to enable them to submit an annual personal tax return to HMRC.

VAT
VAT is the UK’s sales tax. Goods and services that are subject to VAT are known as taxable supplies. Non-taxable supplies may either be VAT exempt or outside the scope of UK VAT.

Registering as a VAT trader
A business must register with HMRC as a VAT trader if the value of its sales of taxable supplies exceeds a minimum threshold level. This level is currently £83,000 in any 12 month period.
• A business must register for VAT if at any time it expects its taxable supplies to exceed the threshold in the next 30 days alone. In addition, due to a special rule called the reverse charge, a business can exceed the threshold as a result of services bought in from suppliers outside the UK.

• A business that has not exceeded the threshold (and is not required to register) may register voluntarily for VAT.

• Where it is known that taxable supplies will be sold at some point in the future, it is possible to register as an ‘intending trader’. This will enable the entity to recover VAT on purchases made wholly for business use.

Charging VAT on sales
Businesses that are registered for VAT must charge tax on the taxable supplies that they sell, at the appropriate rate. The standard rate of VAT is currently 20%, but some goods and services are taxed at a different rate.

Reclaiming VAT on purchases
Businesses registered for VAT may also reclaim the VAT that they have paid on purchases of taxable supplies from other VAT registered businesses. However, if the business makes exempt supplies there is a restriction on the amount of VAT on purchases that it can recover.

Settlement of VAT payments or refunds
The net amount of VAT payable or recoverable is usually settled every three months, when the business submits a VAT return to HMRC. For more information on VAT, visit https://www.gov.uk/business-tax/vat

Potential impact of Brexit
As a supposedly fully harmonised tax that is currently governed by the VAT Directives and Regulations, which are implemented by corresponding domestic legislation, and decisions from the CJEU, etc., VAT could be affected by the departure of the UK from the EU. Following Brexit, the UK will have more flexibility on aspects such as rates of VAT, scope of exemptions and zero-rating. One change that businesses are likely to have to recognise following Brexit is that trade with EU countries is to be accounted for, and evidenced as, exports and imports.

Customs duty
At present, customs is regulated by EU legislation and customs duty is an EU-wide tax levied on the importation of goods into the EU. The EU operates a common customs tariff that, in effect, means the same amount of customs duty will be levied on imports irrespective of where in the EU the importation is made.

There are three pillars to the current regulations: classification, origin and valuation.
Traders are required by law to ensure that they are fully compliant with the customs legislation or otherwise risk penalties and the loss of any duty-relief authorisations that they may be operating.

The customs classification of imported products determines the rate of customs duty that will be applied, which can range from a zero rate up to 85%.

The customs origin of imported products can also affect the customs duty payable, as the EU offers certain countries reduced customs duty rates where the goods originate under the terms of specific agreements.

Customs duty is normally a percentage rate applied to the CIF value (i.e. the cost of the goods, the insurance premium and freight costs of the imported assignment). Customs legislation allows for certain cost elements to be removed from, or added to, the cost of the goods.

There are numerous duty-relief measures available for importers to suspend or delay the point at which the duties become payable.

Once the UK leaves the EU, control of customs will revert to the UK. This is likely to mean that, post Brexit, UK legislation will be needed to replace the EU Directives, Regulations and Council Decisions that currently govern customs duty. Whilst it is possible that the UK could enact domestic law that simply replicates the effect of the current EU provisions, the fact that the UK has raised objections to some of those provisions suggest that some changes might be made. Perhaps the biggest customs duty related change that businesses are likely to see will be the recognition of trade with EU countries as imports and exports. Depending on the outcome of the Brexit negotiations, this may mean that duty is payable when goods move to and from EU member states.

Other tax considerations

Devolved taxes

Powers over certain taxes have been devolved to the Scottish Parliament, Welsh Assembly and Northern Ireland Assembly. Most notably, the exercise of these devolved powers may result in the rate of income tax for Scottish taxpayers deviating from UK rates; and/or a rate of corporation tax for certain profits earned in Northern Ireland distinct from the main UK rate.
6. PEOPLE AND IMMIGRATION
JAPANESE NATIONALS WISHING TO SET UP A BUSINESS OR WORK IN THE UK MUST OBTAIN A VISA BEFORE TRAVELLING TO THE UK

The rules and policies on immigration are subject to change. It is therefore strongly recommended that any organisation wishing to establish a presence in the UK seeks specialist advice. Some of the current UK rules on visas and immigration are explained here.

Points based system for visas
Individuals obtaining permission to move to the UK are known as ‘migrants’ in the terminology of government policy.

Since 2008, the UK Government has managed immigration for migrant workers using a points based system (PBS). Individuals must be awarded a sufficient number of points in order to obtain a visa. These rules apply to all individuals from outside the EEA and Switzerland.

The PBS rules vary for different types of migrant. Currently there are five categories, or ‘Tiers’ of migrant worker. Of these, Tier 1 and Tier 2 are most likely to be relevant to an individual wishing to set up a business or work in the UK, and to overseas companies wishing to transfer some of their workers to the UK.

Tier 1: Highly skilled migrants
This category enables certain applicants to gain a personal visa to come to the UK. If the application is successful, the visa awarded is not connected to any employer. The subcategories of Tier 1 visas are set out below.

- Tier 1 Investor visa: This is aimed at foreign investors who can bring at least £2 million of their own money to the UK. The £2 million must be invested in specific investments such as government bonds or share or loan capital in active and trading UK companies.

- Tier 1 Entrepreneur visa: This is aimed at entrepreneurs who wish to invest in the UK by setting up or taking over a business or by becoming actively involved in the running of one or more businesses in the UK. The main conditions include having access to at least £200,000, or at least £50,000 if the money is from one or more registered venture capital firms regulated by the Financial Conduct Authority – or one or more specified UK entrepreneurial seed funds or one or more UK Government departments. The money needs to be invested directly into one or more businesses in the UK.
Overseas criminal record certificates
From 1 September 2015, if you are applying for entry clearance as a Tier 1 migrant or an adult dependant (over 18 years old) of the main applicant in this route, you must provide an overseas criminal record certificate for any country you have resided in continuously for 12 months or more, in the 10 years prior to your application.

Tier 2: Skilled workers
Tier 2 migrants are skilled workers who have been offered a job in the UK. Individuals applying for a visa under Tier 2 of the PBS must have a sponsor. This is the employer who will provide them with their job in the UK. If a UK based business wishes to sponsor a migrant for a visa to work in the UK, it must apply to the UK Visas and Immigration for a sponsor licence.

Tier 2 also covers individuals whose existing employer wants to transfer them from a position outside the UK, and move them to work in the UK in a related company. The UK company acts as the sponsor. The individual must have gained at least 12 months’ work experience with the same group company in a non-UK location before an application for a visa can be made.

Under the PBS, points are awarded to the individual according to their qualifications, future expected earnings, their sponsor, their English language skills and the amount of funds they have to support themselves.

Stringent qualifying criteria apply to the minimum salary that Tier 2 applicants should earn and how long they can spend in the UK. After leaving the UK, a 12 month ‘exclusion period’ may apply to some individuals, which means that they cannot return to the UK with a Tier 2 visa within 12 months of leaving the UK.

Professional advice should always be sought well in advance of travel (we would recommend at least four months), so that a full assessment of the case can be carried out and the appropriate visa obtained.

More information about the PBS is available at www.gov.uk/uk visa sponsorship employers

Visas outside the PBS
Visas may be obtained under rules outside the PBS.

Business visitors
An individual may come to the UK as a business visitor for up to six months in any 12-month period, provided that certain strict qualifying criteria are met.

The visitor must not be employed or paid in the UK, and most importantly, must not be carrying on any productive work in the UK. Current policy allows for the individual to attend meetings and conduct fact finding activities, but other duties may breach the visa regulations.

Where relevant, the UK authorities will look to enforce compliance with immigration rules (as well as tax rules) by business visitors to the UK. It is therefore advisable to check that the proposed activities of the business visitor are permissible within the visa regulations.

Individuals of some nationalities must always obtain a visa, from the British Embassy in the home country, to come to the UK as a business visitor, so it is important to check up-to-date information in this regard before the individual travels to the UK.
Sole Representative
The Sole Representative is another visa category outside the PBS. This category allows a sole representative of an overseas firm to obtain a visa to establish a wholly owned subsidiary or register a branch in the UK for an overseas parent company.

The overseas company must not have an existing branch, subsidiary or other representative in the UK, and other qualifying criteria will apply to the granting of the visa.

Only the first overseas national coming to the UK from a non-UK organisation will be able to obtain a visa through the Sole Representative route. Subsequent employees moving to the UK must obtain their visa in a different way, such as under the Tier 2 category of the PBS.

New immigration legislation for EEA citizens post Brexit
Prior to the official exit date from the EU, the Home office will be working on new immigration legislation to address:

a. The treatment of EEA nationals already resident in the UK
b. The treatment of Irish nationals and the common travel area
c. The criteria for non-UK EEA nationals to qualify for work permits to work in the UK after the official exit date
d. The treatment of business travellers from the EEA visiting the UK

The UK labour environment
Recruitment
Legislation is in place to ensure that selection and recruitment procedures observe the principle of equal opportunities and that applicants are fairly selected on merit and suitability for the job in question. There is legislation in place to preclude employers from discriminating against employees and potential employees on the grounds of sex, race, disability, gender reassignment, marriage or civil partnership status, pregnancy and maternity, age, religion or belief, and sexual orientation.

Employment rights and pay
There are a number of pieces of legislation and case law on employment status and rights, including governing the right of those on indefinite and fixed-term contracts, part-time workers, fixed-term employees and agency workers. Under the National Minimum Wage Act 1998, there is an obligation to pay employees a minimum wage. From April 2016, the national minimum wage per hour is £6.70 for individuals aged 21-24 years; £5.30 for individuals aged 18-20 years and £3.87 for individuals aged 16-17 years. A national living wage of £7.20 per hour has also been introduced, applying to those aged 25 or over. Pensions legislation now requires all UK employers to automatically enrol certain workers into a qualifying pension scheme.

Working hours
Under the Working Time Regulations 1998, employees over the age of 18 are liable to work no longer than a 48 hour week unless they choose to opt out and decided to work longer than 48 hours or if they work in a business sector with its own special rules.

Discipline and dismissal
Termination of the contract of employment by the employer may give rise to an action for wrongful dismissal for breach of the contract (if the correct notice is not given in accordance with the terms of the contract). Redundancy is one of the potentially fair reasons for dismissal. There are statutory redundancy payments to which redundant employees are entitled, subject to a two-year qualifying period.
7. LOCATION AND PREMISES
A JAPANESE ENTITY WISHING TO ESTABLISH A PRESENCE IN THE UK MUST MAKE DECISIONS ABOUT WHERE TO LOCATE OPERATIONS AND HOW TO SECURE INCENTIVES AND PREMISES

The following sections provide an overview of the main factors that should be considered in sourcing new commercial accommodation in the UK. Choosing the best location and subsequently the best building possible for a business will have far-reaching implications for the future success of that business.

### Choice of location: factors to consider

<table>
<thead>
<tr>
<th>Factor</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size and labour pool</td>
<td>What is the anticipated headcount for the new centre? How quickly is this expected to grow?</td>
</tr>
<tr>
<td></td>
<td>What specific skills and experience are required from employees?</td>
</tr>
<tr>
<td></td>
<td>Are there any specific language requirements?</td>
</tr>
<tr>
<td></td>
<td>Which location offers a suitable labour pool from which to recruit UK employees?</td>
</tr>
<tr>
<td>Cost</td>
<td>How important are salary and property costs to the location decision?</td>
</tr>
<tr>
<td>Quality of life</td>
<td>Will staff be re-locating to the new centre? How good are the local schools and universities? How expensive is housing in the area?</td>
</tr>
<tr>
<td>Proximity to clients and competitors</td>
<td>How important is it to be in a location that has an established 'hub' for your industry sector?</td>
</tr>
<tr>
<td>Proximity to airports and other transport links</td>
<td>How frequently will staff travel between group locations, both nationally and internationally?</td>
</tr>
</tbody>
</table>

The following table opposite shows data for some of the UK’s largest cities that might be considered as possible locations. London is by far the largest location and its labour pool has the most diverse skill set, but it comes at the highest cost. Companies may choose to establish a head office in London and then, depending on the size of the operation, establish an operations centre in another major town or city. The operating cost for a location outside London may be more than 25% cheaper.
Grants and incentive schemes

The UK Government encourages inward investment and a range of grants may be available to encourage initial investment, or reinvestment, in the UK. Grants are typically offered by regional or national Government to qualifying projects. Grants awards are not automatic and a case has to be presented to justify a grant award. The key rules around grants are set by the Government. Currently whilst the UK is a member of the EU, in certain circumstance the position is subject to certain rules and limitations set by the EU.

Depending on the scale, nature and location of the new centre, the UK Government may offer an incentive scheme to help fund the investment.

The main areas of funding include support for:

- Job creation (linked to capital investment, research and development and/or training);
- Capital investment;
- Research and development (the focus being on collaborative projects);
• Training (grants are typically discretionary. Under current rules, set by the EU, assistance may cover up to 50% of the cost of staff training activities and, depending on location, a grant towards fitting out an office and creating jobs in the area, may cover up to 25% of eligible project costs. The level of assistance may be higher for small or medium sized companies).

Assistance from grants may fund up to the following maximum level of incentive:

• Training – between 25% and 60% of the cost of staff training activities above and beyond statutory requirements;

• Capital investment – depending on the location of the activities and the size of the investing company, this may cover up to 30% of the eligible project costs; and

• Research and development – depending on the nature of the research/development and the size of the company, this may cover from between 25% to 50% of the project costs.

In each case, the size of the grant award may be higher for an SME. An SME must have less than 250 full-time equivalent employees globally, and must also have global turnover of no more than €50 million and/or a balance sheet total of no more than €43 million.

We have set out below information around some of the principal grant funding schemes.

Job creation
The majority of grant opportunities to support investment in the UK focus on job creation and/or safeguarding and are offered through either the Regional Growth Fund or the Advanced Manufacturing Supply Chain Initiative. Both of these multi-million pound schemes are competitive and support investment in England only – similar schemes may run in Wales, Scotland or Northern Ireland.

• Regional Growth Fund: can support investment in capital investment, training and/or research and development. Individual companies (SMEs and large) can apply – there is no requirement for collaborative projects. Certain restrictions apply to Large Companies with regards to capital investment – this will depend on the location of the project. The minimum grant award is £1 million and the size of a typical project is £4 million.
• **Advanced Manufacturing Supply Chain Initiative (AMSCI):** can support research and development, skills training and/or capital investment to help UK supply chains achieve world-class standards and encourage major new suppliers to locate in the UK. For example, it could assist a company locating to the UK to help develop a UK-based supply chain. The minimum grant award is £2 million and the project must be collaborative.

**Enterprise zones**  
Enterprise zones are dedicated areas in the UK regions that support new and expanding businesses. They provide simplified planning approaches and high-speed broadband. There are over 30 Enterprise zones in the UK regions.

A business that locates in one of these zones may qualify for:

- A five-year holiday from business rates (worth up to £275,000).
- 100% enhanced capital allowances for investment in plant and machinery (between 1 April 2012 and 31 March 2017) in certain situations.

However, not all sectors can benefit (e.g., companies in difficulties, steel industry, shipbuilding industry, etc. cannot benefit).
Premises
The UK has a sophisticated market for real estate. Businesses seeking premises are usually advised by real estate professionals known as chartered surveyors.

Prices and contract terms for office accommodation are highly negotiable. Business premises may be purchased outright, but many businesses acquire premises under a leasing arrangement with a landlord. A typical length of lease for business premises is five to fifteen years. In some lease agreements, the tenant has a right to renew the lease at the end of the original lease term. It is common for lease agreements to include a provision for upward price adjustments, known as rent reviews, at periodic intervals.

It is also usual for occupiers to obtain leased premises as an empty building or part building, and then to undertake their own work to install offices, meeting rooms, reception area, IT and communications systems etc, in a process known as 'fitting out'.

It is usual for occupiers to be required to maintain the premises themselves and to return them to the landlord, to an agreed standard, at the end of the lease.

The landlord may retain responsibility for maintaining the parts of the building that are used in common with other occupiers. If so, it will make a 'service charge' for this service.

Another alternative is serviced offices where businesses acquire office space on a short-term lease where the rent charged on an all-inclusive basis and the offices are fully serviced, with furniture and IT infrastructure included ready for immediate use. Such arrangements often provide good short-term flexible solution, whilst businesses decide on their longer term occupational strategy. Over a longer period of time, however, they often prove to be more expensive than longer term leases.

A chartered surveyor/property advisor will be able to advise on the process involved in opening an office and how to negotiate sensible commercial terms and flexible lease terms.
<table>
<thead>
<tr>
<th><strong>Choice of premises: factors to consider</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size and floor space</strong></td>
</tr>
<tr>
<td>Take into account the anticipated growth of the business during the term of the lease.</td>
</tr>
<tr>
<td><strong>Basis of ownership</strong></td>
</tr>
<tr>
<td>Most businesses in the UK rent premises from a landlord under a lease arrangement, but an outright purchase is possible. Serviced offices is a further alternative which is gaining in popularity for companies that require flexibility.</td>
</tr>
<tr>
<td><strong>Budget</strong></td>
</tr>
<tr>
<td>The annual running costs for a lease of office premises include: rent; local tax (known as business rates); service charge and building insurance to the landlord; utility charges (electricity, water, etc.); and maintenance charges. At the beginning of a lease, an occupier without an established track record in the UK may be asked by the landlord for a rent deposit. The amount of a deposit is negotiable, but it may be as much as the equivalent of 12 months’ rent and service charge. There is also an initial cost for fitting out the premises and payment of fees for professional advisors.</td>
</tr>
<tr>
<td><strong>Professional support</strong></td>
</tr>
<tr>
<td>It is important to choose the right professionals, including chartered surveyor/property advisor, solicitor, tax advisor, building contractor, interior architect and project manager.</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
</tr>
<tr>
<td>When purchasing a property or entering into a lease, the buyer must make a one-off payment of Stamp Duty Land Tax (Land and Buildings Transaction Tax in Scotland). The amount of this tax varies with the cost of the purchase or amount and rent paid for the deduction of the lease. Annual local taxation known as business rates must also be paid.</td>
</tr>
<tr>
<td><strong>Statutory requirements for buildings</strong></td>
</tr>
<tr>
<td>Occupiers must comply with legislation in the UK covering health and safety at work, including Building Regulations and Fire Regulations.</td>
</tr>
<tr>
<td><strong>Timing</strong></td>
</tr>
<tr>
<td>It can take 12 months or more to search for and find premises, negotiate and agree lease terms, fit out the premises and move in. Having a chartered surveyor/property advisor in place at the outset will help you with this process.</td>
</tr>
</tbody>
</table>
Most businesses operating in the UK rent their premises, although there is the potential for businesses to own properties outright. Property ownership in the UK is attractive as it offers wealth preservation and growth potential in a stable, transparent and liquid environment.

The steps to buying property in the UK can be broken down as follows:

1. **Identifying a suitable property** – assisted by the buyer’s advisor
2. **Pre-offer due diligence** – including pricing and market analysis
3. **Submitting an offer** – depending on competition there could be more than one round of bids
4. **Agreeing heads of terms** – these are the main terms of the deal that have been agreed by the seller and the buyer. Once heads of terms are agreed both sides instruct their respective solicitors and the property goes ‘under offer’
5. **Tax and financial due diligence** – this should be undertaken to identify any potential risks. If the property is held by a Special Purpose Vehicle, more detailed tax and financial due diligence will be required
6. **Legal due diligence** – a buyer’s solicitor investigates the title deeds and agrees the finer points of the Sale and Purchase Agreement (SPA) with the seller’s solicitor. The buyer will also normally commission a building survey to be undertaken at the same time
7. **Exchange** – both sides sign the SPA and the buyer pays a deposit (typically 10% of the purchase price). Both sides are now committed to the transaction
8. **Post completion** – the buyer pays any Stamp Duty Land Tax (SDLT) and the transaction is registered with the Land Registry whose responsibility it is to keep and maintain a record of land ownership in England and Wales (a similar process is followed in Scotland and Northern Ireland)
9. **Completion** – the buyer pays completion monies after which they assume control of the property

In the UK it is standard market practice for buyers and sellers of property to be represented by a buy side and a sell side advisor. A buy side advisor’s services include deal sourcing, providing expert local market knowledge and importantly securing the deal for their client. They will also liaise with solicitors and other professionals to facilitate completion of the transaction. The buy side advisor will be paid a fee by the buyer which is typically up to 1% of the purchase price + VAT (depending on the size of the acquisition).
Real Estate Tax and Capital Allowances

Real estate investors in the UK should recognise the importance of thorough taxation due diligence and structuring advice in appraising real estate acquisitions in today’s market.

The UK has a particularly attractive tax environment for overseas property investors where the investment is made through a non-UK tax resident company. The key features of such an investment structure are:

- no UK taxation on capital gains on the disposal of UK investment assets;
- potential to reduce taxable profits using ‘related party’ debt and the provision of management services from related entities (provided on arm’s length terms);
- rate of UK Stamp duty on purchase of shares of companies / unit trusts where instruments are executed in the UK is 0.5%, compared to 4% on the direct acquisition of UK commercial property.

In addition changes to the UK Real Estate Investment Trust (REIT) provisions have increased the attractiveness of UK REITs as a UK real estate platform for institutional investors and private equity funds.
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DEPARTMENT FOR INTERNATIONAL TRADE

The Department for International Trade is the UK Government Department that helps overseas companies bring their high-quality investment to the UK’s dynamic economy, acknowledged as Europe’s best place from which to succeed in global business. We also help UK-based companies succeed in the global economy.

DIT’s tailored service supports investors with every aspect of starting and expanding a business that include: relational management, international trade (export) advice, access to industry networks and sector ecosystems, regeneration investment etc. DIT’s services to international investors in the UK are free of charge and commercial-in-confidence. DIT Japan have sector based teams in both the British Embassy in Tokyo and the Consulate in Osaka to serve local Japanese clients.
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