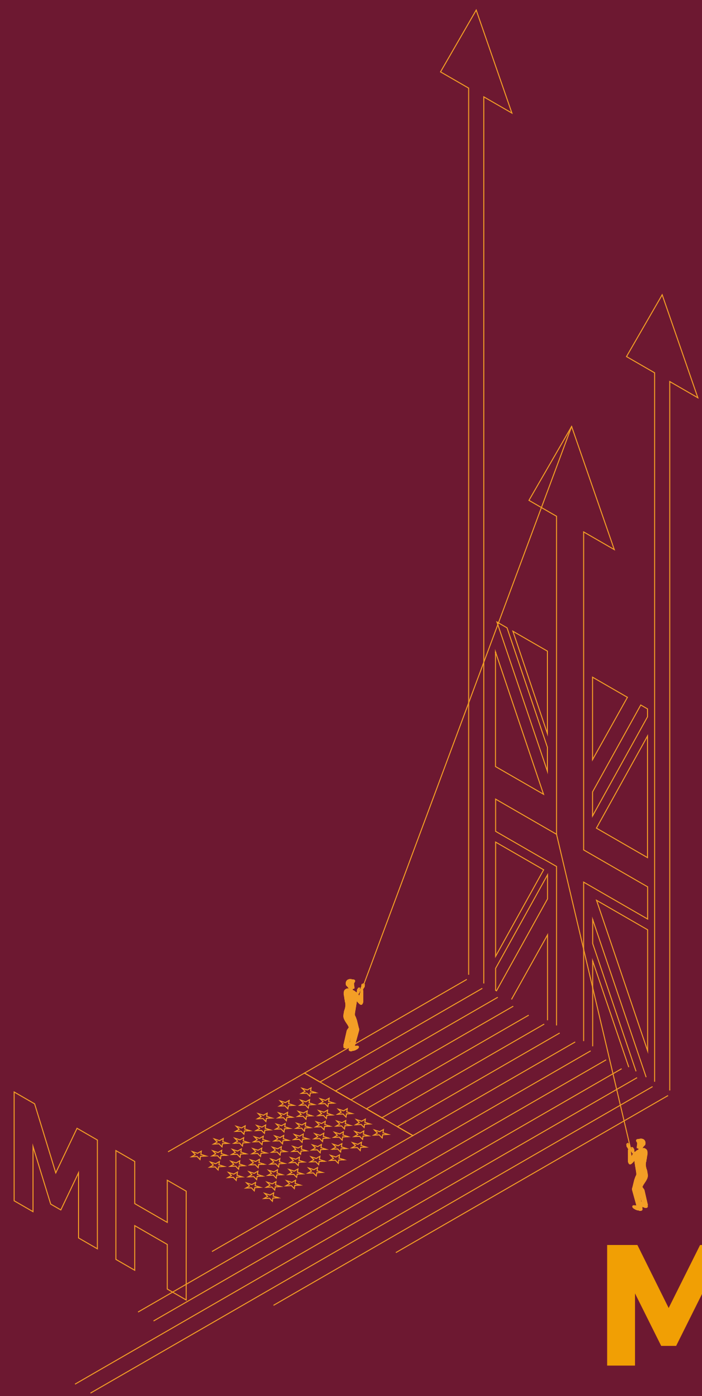
A guide for US businesses

Setting up business in the UK



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A guide for US businesses

Setting up business in the UK

Overview

When a US company decides to establish operations in the UK, there are several options available. The form your UK business takes will determine which laws govern its operations and the key responsibilities you'll need to consider throughout its lifecycle.

This guide provides an overview of the different ways your US company can enter the UK market and the key considerations to keep in mind when conducting business in the UK.

This guide reflects the UK legal and regulatory position as of 2026. Some employment reforms are being implemented in stages across 2026 and 2027.

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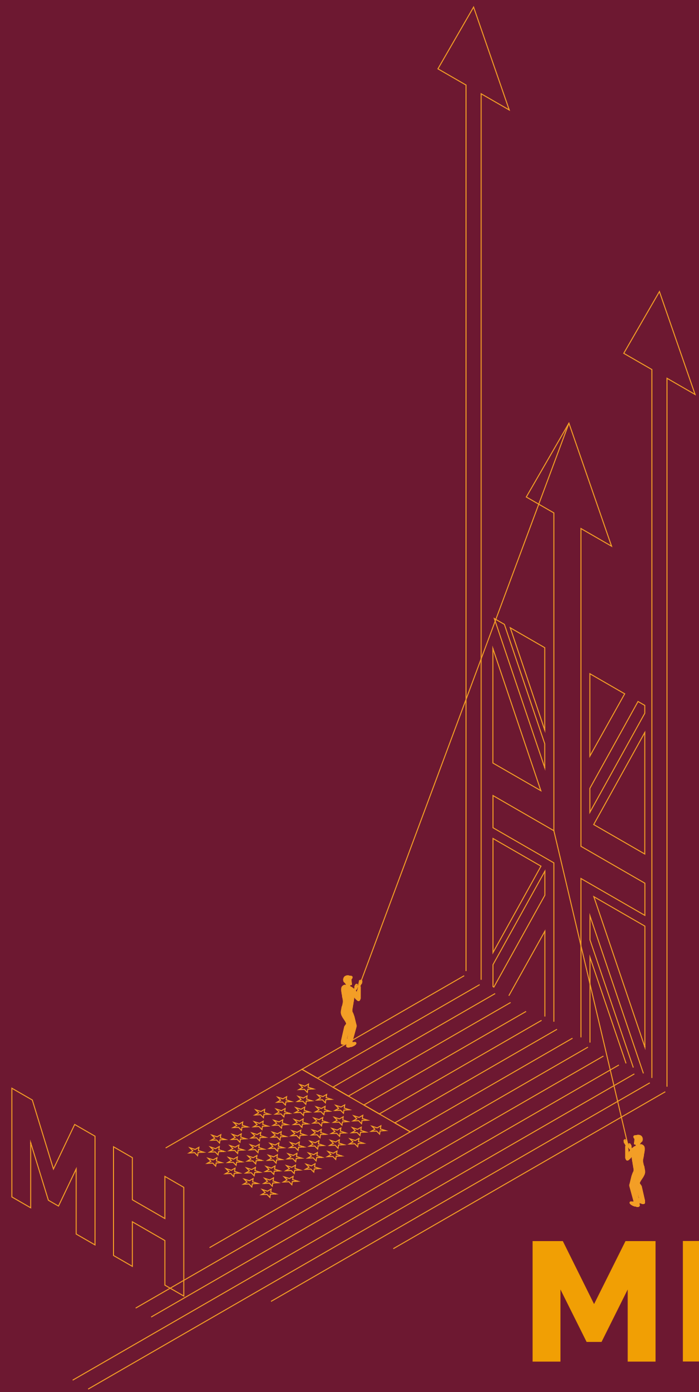

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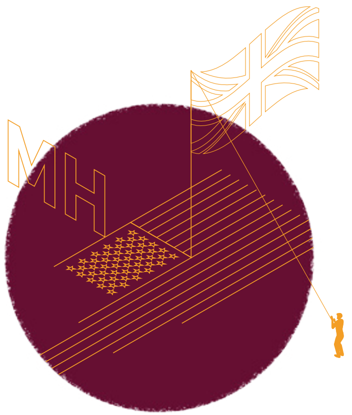
Setting up a UK entity

Most US businesses entering the UK market choose to incorporate a private limited company. While other options exist - such as establishing a UK branch or forming a partnership - these are far less common.

This section will focus on what you need to know about operating through a UK private limited company.



Legal structure and incorporation

A UK private limited company has its own separate legal personality. This matters because the company can conduct business in its own right, regardless of ownership changes, while protecting the parent company through limited liability. This means shareholders can only lose the money they've invested in the company, with their other assets remaining protected.

You can incorporate a UK company quickly – typically on the same day. You won't need physical premises; a registered UK office will do. Registration with Companies House (the UK company registry) is straightforward but requires the following key items:

- A UK registered office address
- The name and details of at least one director
- Certain shareholder and share capital information

The articles of association are the UK equivalent of US bylaws. These set out directors' powers, shareholder rights, and decision-making procedures. They're legally required and must be made publicly available at Companies House. They can be as simple or complex as required by the US parent company.

Often, private limited companies initially adopt the Model Articles for Private Companies – a set of standard rules that are automatically applied unless bespoke articles are chosen.

Directors

A director of a UK company must be at least 16 years old and cannot be an undischarged bankrupt.

There is no requirement for directors to be UK residents or British nationals - they can be from anywhere in the world. However, be aware that non-resident directors may face UK income tax if they perform duties in the UK, even temporarily. As office holders, any salaries or fees for UK duties must go through PAYE (pay-as-you-earn), even if payment comes from outside the UK.

Directors have statutory duties under the Companies Act 2006. They must act within their legal powers, promote the company's success, exercise independent judgement, use reasonable care and skill, avoid conflicts of interest, and refuse benefits from third parties.

Compliance and reporting

UK private limited companies have substantial record-keeping and reporting obligations from day one. This includes filing regular updates with Companies House about directors, shareholders, share capital, and accounts.

The company must also maintain statutory registers covering these same areas.

It also needs to register with HM Revenue and Customs (HMRC) within three months of starting any business activity.

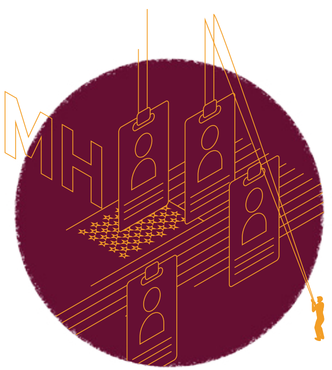
Often, non-UK parent companies engage the services of a company secretary to handle these filings and maintain statutory registers. Marriott Harrison offers these services upon request.

Employment

The UK has historically offered one of Europe's most flexible labour markets, making it an attractive destination for US companies establishing their first European operations.

However, UK employment law contains several mandatory protections that may surprise US employers but it remains comparatively business-friendly when compared with most European regimes.

This section highlights the key questions and issues a US business should consider when employing individuals in the UK.



Understanding mandatory employment rights

The Employment Rights Act 2025 introduced one of the most significant recent overhauls of UK employment law. Some changes took effect on 6 April 2026, with further reforms expected in October 2026 and 2027.

These rights cannot be contractually excluded (except through settlement on termination). However, proper legal advice, robust procedures, and well-drafted employment contracts can significantly mitigate associated risks. We regularly assist US businesses in navigating these requirements, particularly during employee terminations and Reductions in Force (RIFs).

This guide does not seek to deal with every single UK employment right but focuses on those which we see overseas businesses interacting with the most.

Unfair dismissal protection

UK employees cannot be dismissed without a 'fair' reason and following a 'fair' process. Acceptable reasons include redundancy, poor performance, and misconduct. Unfair dismissals can trigger substantial compensation claims.

Currently, employees gain this protection after 23 months' service. From 1 January 2027, the qualifying period will be reduced to six months. This will be a significant change in the hiring landscape in the UK.

Whistleblowers (i.e. those who call out certain types of wrongdoing) receive enhanced protection, including day one unfair dismissal rights and protection from detrimental treatment.

RIFs and employee terminations are still possible but may require more planning and thoughtful execution, to avoid unexpected claims for compensation.

Discrimination law

UK discrimination law protects not just employees but also job applicants. Protected characteristics include age, sex, disability, race, maternity, religion, and sexual orientation.

The most common forms of unlawful discrimination include:

- Direct discrimination
- Indirect discrimination
- Harassment
- Victimisation

Employers must make reasonable adjustments for disabled employees. We recommend implementing comprehensive equal opportunities policies as both a management tool and legal safeguard.

The importance of having well drafted employment agreements

UK employment contracts differ from their US counterparts. They typically contain extensive detail and primarily serve to protect the employer while providing a clear record of agreed terms, helping to prevent future disputes.

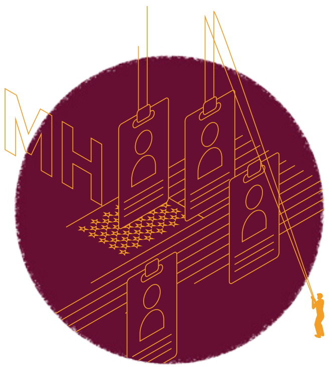
Key provisions include:

- Notice periods: Usually up to three or even six months, with shorter periods (one to two weeks) during probation.
- Probation periods: Typically, a six-month period at the start of employment during which the contractual notice period is shorter.
- Confidentiality and IP ownership: Robust contractual protections for business-critical information.
- Post-termination restrictions: Non-compete clauses are almost universal for senior employees in the UK. An employer does not have to pay for such restrictions, but they will only ever be enforceable if they are reasonable in scope and duration given an employee's seniority and role, and the nature of the business.

The contractor vs employee distinction

Misclassifying workers represents a significant risk for businesses. The distinction between genuine contractors and employees affects both tax obligations and employment rights. Clear contractor indicators include running their own business, providing equipment, and bearing economic risk. Employee indicators include full-time work, fixed salaries, and job titles. Grey areas exist – such as project-based workers heavily integrated into the business.

Employment



Misclassification risks include:

- Unexpected tax liabilities
- Claims for backdated employment rights

Structuring your UK workforce

US businesses have three main options for UK employment:

1. UK Limited Company: The traditional approach – establishing a UK subsidiary as the employer.
2. Employer of Record (EOR): Third-party organisations employ staff on your behalf. While offering apparent simplicity, EORs often provide inadequate IP protection, and confidentiality and post-termination restriction provisions rarely work in these arrangements.
3. Direct employment from overseas entity: The overseas entity directly employs UK-based staff. This may suit small employee numbers but still requires UK payroll registration and compliance with UK employment law.

We also see some US businesses test the UK market by using engaging individuals as arms-length contractors/consultants. This can work in the short term but there are employment rights and tax risks when individuals are engaged in this way for too long.

Share incentives for UK employees

Share options remain popular for recruiting and retaining UK talent. An option is the right to buy shares in the share capital of the company in the future at a price per share which is fixed at the time the option is granted.

EMI options

The UK also offers flexible arrangements, including tax-advantaged schemes (the most popular of which is the Enterprise Management Incentives (EMI) scheme) which allow UK companies to grant tax efficient share options to employees. If the UK company is not eligible for tax advantaged schemes, then it may still grant non-tax advantaged options, which are highly flexible in design.

EMI schemes provide significant tax advantages when qualifying conditions are met:

Company qualifying conditions:

- The company's gross assets cannot exceed £30m.
- The company must carry on a qualifying trade.
- The company granting options cannot be under the control of another company.

Employee qualifying conditions:

- Employees must work at least 25 hours a week or 75% of their working time for t he company.
- Employees cannot have more than 30% of a material interest in the share capital before options are granted.

Shares qualifying conditions:

- Shares issued under the option must be fully paid-up.
- Shares issued under the option must be ordinary shares.
- Shares issued under the option must not be redeemable.

The price per share (exercise price) is agreed with HMRC and based on a current valuation of the company. The exercise price is then fixed as the company continues to grow and increase in value.

At some point in the future, at a time determined by the company and subject to satisfying certain performance conditions, the employee can exercise the option to acquire the shares at the fixed exercise price. By this point, the expectation is that the market value of the shares will have increased in value, but the exercise price paid remains at the low fixed price.

EMI options must be notified to HMRC, and the company must file annual employment-related securities returns. This reporting should not be overlooked, as missed or late filings can affect the tax treatment and trigger penalties.

Employment

Non-tax-advantaged options

Where EMI qualification isn't possible, companies can implement flexible non-tax advantaged schemes. However, these trigger income tax and national insurance on exercise when shares are 'readily convertible assets'.

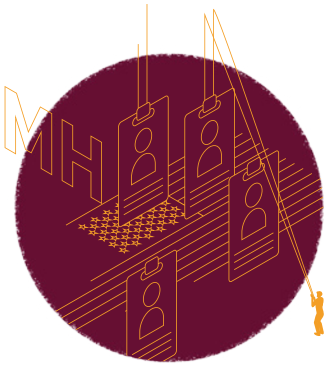
For private companies, shares will often be readily convertible assets where there is an exit, listing, buyback arrangement, or other market for the shares. In those cases, the employer may need to operate PAYE and account for employee and employer NICs on exercise.

Non-tax-advantaged options are often the practical route for US groups where EMI is not available, particularly for grants over US parent company shares. They are flexible, but the UK tax treatment and reporting should be built into the plan documentation and payroll process before awards are granted.

Companies should also consider whether employees will be asked to enter tax elections, such as a section 431 election for restricted shares, where relevant. This is a technical point but can materially affect the UK tax outcome for growth shares, restricted stock and other share awards.

The key is getting your employment contracts and HR policies right from day one; they're your first line of defence against costly disputes. With proper planning, UK employment law is entirely manageable, and we've helped hundreds of US businesses successfully navigate these requirements while building their UK operations."

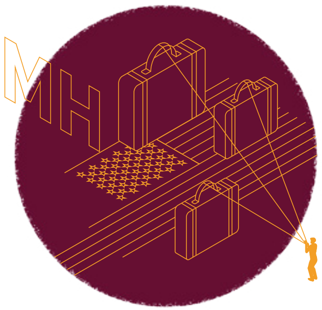
ED BELAM, EMPLOYMENT PARTNER



Immigration

Setting up UK operations requires careful consideration of immigration requirements alongside business structuring.

This section explores how the timing of your UK establishment and the sequence of your setup steps can significantly impact available immigration routes for transferring US employees or recruiting internationally.



Employer obligations

UK employers must verify that all employees have appropriate work permission.

While British and most Irish citizens have unrestricted work rights, all other nationals – including EU citizens post-Brexit – require suitable immigration status. Employing someone without permission risks civil penalties up to £60k per worker, or criminal prosecution if you knew or reasonably suspected the person lacked work permission.

Three immigration categories

The UK system comprises sponsored routes, non-sponsored routes, and visitor status.

Sponsored routes

Most workers require sponsorship through either the Skilled Worker or Global Mobility routes. To sponsor workers, organisations must obtain a sponsor licence from UK Visas & Immigration (UKVI), which carries significant compliance obligations including record keeping, monitoring, and reporting duties.

Key sponsored routes include:

- UK Expansion Worker: For overseas businesses establishing their first UK presence. Allows transfer of up to five employees to set up UK operations. Critically, the UK entity must not yet be operating or have any employees – recruiting locally first closes this route.
- Skilled Worker: The most common route, requiring an active UK trading entity with at least one settled employee, director, or partner managing the sponsor licence.
- Senior or Specialist Worker: For transferring employees from related overseas entities (common ownership or control) who have 12+ months' service or are high earners.
- Scale-Up Worker: For businesses demonstrating 20% annualised growth over three years with a minimum of 10 initial employees.
- Graduate Trainee: For employees on a structured graduate training programme. It has shorter employment requirements. It does not lead to settlement in the UK.
- Temporary Worker: This includes Creative Workers, for workers in the creative sector making a unique contribution to the UK's cultural life, and Government Authorised Exchange, under which several niche schemes operate to sponsor people in research and supernumerary work experience roles.

Non-sponsored routes

Certain individuals may qualify without employer sponsorship, including:

- Dependants of existing visa holders
- Innovator Founders
- Global Talent visa holders
- High Potential Individuals

These routes may include employment restrictions and vary in duration and settlement eligibility.

Visitors

Visitors cannot work, be paid by UK sources (except permitted expenses), or live in the UK through frequent visits. The UK does not have a digital nomad or remote working immigration route. However, certain business activities – attending meetings, site inspections, negotiating contracts – are permitted. Many non-visa nationals, including US nationals, now generally require an Electronic Travel Authorisation (ETA) before travelling to the UK, unless exempt.

Intellectual property

While international treaties provide some harmonisation of intellectual property laws, IP rights remain territorial. Protection in your home market does not automatically extend to the UK, making a clear IP strategy essential for UK operations.

This section touches upon some of these considerations.

Trade marks

Trade marks distinguish your goods and services from competitors', much like in the US. Before launching in the UK, conduct clearance searches to identify potential conflicts and seek registered protection for key brands and logos. Registration provides statutory enforcement rights and indefinite renewal options.

Unregistered marks can also receive protection through the law of passing off, which prevents others from misrepresenting their goods/services as yours and damaging your goodwill.

Post-Brexit, EU trade mark registrations no longer cover the UK. Businesses cannot rely on EU registrations for UK enforcement and need separate protection.

Patents

Patents protect new inventions (either products or processes) capable of industrial application, granting monopoly rights typically for 20 years (subject to renewal). Patents granted elsewhere don't provide UK protection, but US businesses can claim priority from US patent filings if UK applications are filed within 12 months.

The UK remains part of the European Patent Convention. European patents with UK designation continue to be granted by the European Patent Office, allowing concurrent UK and EU strategies.

Ownership of IP in the UK

English law contains important nuances regarding IP ownership that differ from US practice:

- Employees: IP created by employees during employment automatically vests in the employer.
- Contractors and freelancers: Unlike the US 'work for hire' concept, IP created by freelancers, contractors, or suppliers belongs to the creator by default – even when commissioned and paid for by your business. Written assignment clauses are essential to transfer ownership.

The distinction makes it fundamental for a business entering the UK market to pay close attention to who creates IP on its behalf and to ensure that agreements with IP creators are carefully drafted.

Domains

While not strictly IP rights, domain names are crucial digital assets affecting customer trust and online presence. Each domain is unique – only one entity can use a particular domain at a time.

Domain registration differs from trade mark registration and provides different rights. However, domain strategy should form part of your broader IP considerations when entering the UK market, particularly regarding brand consistency and protection against cybersquatting.

The biggest surprise for US businesses is often discovering that, unlike 'work for hire' in America, IP created by UK contractors belongs to them by default - even when you've commissioned and paid for it."

EESHETA SHAH, COMMERCIAL PARTNER

Data protection

The UK GDPR and Data Protection Act 2018 govern personal data processing. Non-compliance risks fines up to 4% of global turnover or £17.5m (whichever is higher).

This section explores how the UK governs data.

Principles

UK legislation sets out seven principles that govern the processing of personal data (i.e. data relating to an identified or an identifiable living person). Personal data must be:

- Processed lawfully, fairly, and transparently.
- Obtained only for a specified and lawful purpose, and shall not be further processed in a manner that is incompatible with the original purpose.
- Adequate, relevant, and not excessive in relation to the purpose for which it is being processed.
- Accurate and, where necessary, kept up to date.
- Not be kept for longer than is necessary for that particular purpose.
- Protected by appropriate security measures against unauthorised or unlawful processing and against accidental loss or destruction.
- Processed with appropriate measures and records in place as proof of compliance with these data protection principles.

These principles apply globally to any business handling UK personal data, regardless of location.

Practical requirements

When handling personal data related to UK individuals, businesses also need to take certain practical steps, including:

- Register with the Information Commissioner's Office (ICO), the UK regulator.
- Maintain both external-facing documents (such as customer privacy notices) and internal-facing documents (such as records of processing activities).
- Include appropriate clauses in supplier contracts involving data sharing.
- Appoint a Data Protection Officer where required.
- Implement specific safeguards for special category data, such as health information.

International data transfers

Personal data must not be transferred to a country or territory outside the UK unless that country or territory is deemed to offer an adequate level of protection.

Where countries or territories do not offer adequate protections, valid data transfer mechanisms must be implemented to comply with UK data protection laws, such as the UK's International Data Transfer Agreement or Addendum.

Data subject rights and breaches

In the UK, individuals have the right to access, correct, erase, and object to processing their data. They also have the right to have their personal data transferred to a third party. There are specific rules and timeframes that businesses must comply with when they receive such requests.

Personal data breaches may require notification to the ICO within 72 hours and to affected individuals without undue delay.

Future developments

The UK government is currently attempting to reform UK data protection law and has introduced a draft Data (Use and Access) Bill (DUA Bill). It aims to modernise data laws while maintaining protection standards, however, the core UK regime is expected to remain materially unchanged in coming years.

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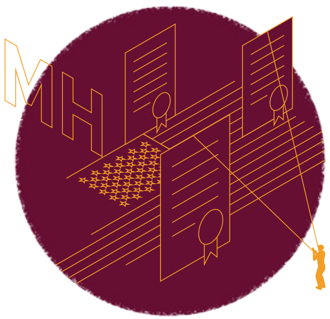
Commercial contracts

Many businesses choose English law for its reputation for certainty between contracting parties.

This section explores why well-drafted, clear contracts are essential for UK operations.



Why should you anglicise your contracts?

US-style contracts require adaptation for the UK market as UK counterparties respond better to familiar terminology and formatting. US contractual language also may not have been interpreted by UK courts, creating uncertainty. Additionally, UK-specific laws (such as limitation on liability and data protection) must be incorporated for contracts to be enforceable and compliant.

UK law prohibits certain exclusions including:

- Liability for death and personal injury caused by negligence.
- Liability for fraud or fraudulent misrepresentation.

Laws such as the Unfair Contract Terms Act 1977 also limit the extent to which a party in a business-to-business contract can exclude or restrict liability to the other.

B2C operations and consumer laws

UK consumer legislation governs the entire transaction lifecycle:

- Pre-contract requirements: The Consumer Contracts Regulations mandate specific pre- and post-sale information.
- Cancellation rights: Consumers have a 14-day cancellation right for distance and off-premises contracts, regardless of reason.
- Implied contractual terms: The Consumer Rights Act 2015 (CRA) implies terms that goods and digital content must be of satisfactory quality, fit for purpose, and match descriptions, and services must be provided with reasonable care and skill.
- Unfair terms: The CRA prohibits terms creating significant imbalances to consumers' detriment. Common pitfalls include terms hidden in small print, unilateral variation rights, and inappropriate liability exclusions.

There is an increased focus on compliance with consumer laws in the UK and the regulator has the power to issue fines up to 10% of global turnover.

Advertising

Advertising in the UK is governed by a mix of general legislation, sector-specific legislation, and industry self-regulated codes of conduct.

The UK's Digital Markets, Competition, and Consumers Act 2024 (DMCCA) 2024 specifies a list of commercial practices that are automatically banned in all circumstances, such as falsely claiming that an item will be offered for a limited time to compel a consumer to make a rushed purchasing decision. It also generally prohibits misleading actions, misleading omissions, and aggressive commercial practices.

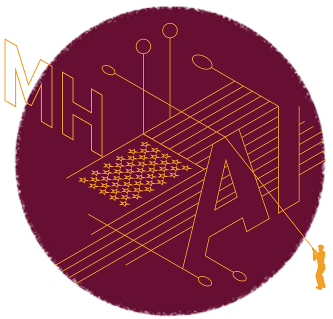
Broadly, when advertising to UK consumers, businesses need to ensure that the advertisement statements made about goods, services, or digital content are true and can be substantiated.

The DMCCA also sets out rules on subscription contracts, drip pricing practices, and fake reviews.

Tech and AI regulation

Unlike the neighbouring EU, the UK does not currently have any specific legislation regarding AI and is taking a 'pro-innovation' approach via existing laws. However, this landscape is evolving rapidly, requiring businesses to remain adaptable.

This section explores what US businesses should know about tech and AI regulation in the UK.



Technology

The UK has recently approved the Online Safety Act 2023 (OSA), which applies to online search services and user-to-user platforms enabling content posting or user interaction. Key obligations include:

- Conducting risk assessments for illegal content.
- Implementing protection measures.
- Explaining safety procedures to users.

The UK positions itself as a regulatory leader in digital markets, so businesses seeking to enter the UK market should keep an eye on 'TechReg' developments.

Artificial Intelligence

UK's current approach

To date, the UK has taken a principles-based approach to AI, relying on the framework of existing laws and regulations (including data protection, IP, and consumer laws) to shape the handling of AI rather than bringing in new and specific legislation to manage AI risks. Therefore, existing regulators such as the ICO, the Competition and Market Authority and the Financial Conduct Authority Markets, have been tasked with taking the lead on AI governance.

EU AI Act and its applicability to the UK

Despite Brexit, the EU AI Act's broad territorial scope may catch UK businesses. Many UK organisations already use the Act as a compliance benchmark, implementing:

- Transparency measures: Informing users of AI system interactions.
- Technical documentation: Recording training and testing processes.
- Governance structures: Appointing authorised representatives where required.

The Act's obligations are being phased in over the next few years.

> *The UK's 'pro-innovation' approach to AI regulation offers opportunities, but don't mistake this for a regulatory free-for-all - existing laws around data protection, consumer rights, and competition still apply. Many UK businesses are also already using the EU AI Act as their compliance benchmark."*
>
> CHRIS MOONEY, PARTNER AND HEAD OF COMMERCIAL

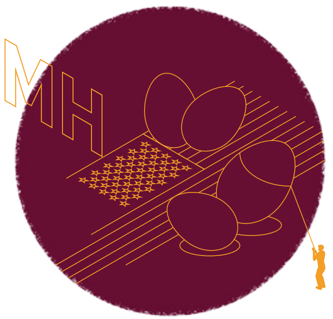
MH

Pensions

All UK employers must automatically enrol (and re-enrol every three years) qualifying employees into workplace pensions and make minimum contributions.

These requirements apply regardless of company size or location – failure to comply can result in penalties, including fixed and escalating fines and, in extreme cases, the risk of criminal sanctions.

This section highlights the obligations surrounding pensions that US businesses must be aware of when entering the UK.



Requirements, known as AE (auto-enrolment), apply regardless of employer's location, worker's residence, and occasional business travel abroad.

Special rules apply to company directors depending on company size, board composition, and executive/non-executive status.

Categories of worker

Workers fall into three categories based on age and earnings:

Eligible jobholders (must be auto-enrolled):

- Age 22 to State Pension Age (currently 66)
- Earnings above £10k annually
- Postponement possible for up to three months

Non-eligible jobholders (opt-in rights):

- Either: Age 22 to State Pension Age earning £6,240-£10k
- Or: Age 16-21 or State Pension Age up to 74 earning above £6,240
- If they opt in, minimum contributions apply

Entitled workers (joining rights only):

- Age 16-74 earning up to £6,240
- Can request scheme membership
- No employer contribution requirement

All thresholds are for the 2026/27 tax year and are reviewed annually.

Scheme requirements

Qualifying schemes

Many insurance companies in the UK offer employers an off-the-shelf product which will be branded as their own scheme. Other common examples are NEST and The People's Pension which have been set up to allow employers to comply with the UK's AE requirements without having to establish their own scheme.

Qualifying earnings

The minimum contribution requirements are based on 'qualifying earnings', currently catching anything falling between £6,240 and £50,270 per annum for the 2026/27 tax year. The automatic enrolment earnings trigger remains £10k. These thresholds are reviewed annually. Earnings include salary, wages, commission, bonuses, and overtime, as well as statutory sick and maternity pay.

Scheme contributions

Currently the minimum contribution rate, expressed as a percentage of a jobholder's qualifying earnings, is 8% with a minimum of 3% having to be paid by the employer.

Although this is the statutory minimum level, many employers in the UK choose to pay contributions based on other definitions of pay, for example, basic pay or full pay. A common reason for this is to reduce the administrative burden of having to calculate contributions based on qualifying earnings by running a shadow payroll for all staff.

Critical compliance points

Opt-out rules

- Workers can opt out within one month of enrolment.
- Must be enrolled first – cannot pre-emptively opt out.
- Employers must not encourage or induce opt outs.

Re-enrolment

- Required every three years
- Must include previously opted-out eligible jobholders.
- Permanent opt outs not permitted.

Registration and reporting

- Submit declaration of compliance to the Pensions Regulator (TPR).
- Provide details of scheme and compliance methods.
- Re-certify every three years.

Penalties for non-compliance

TPR can issue:

- Compliance notices: Requiring corrective action.
- Contribution notices: Demanding unpaid contributions (employer and employee portions).
- Fixed penalties: Initial £400 fine typically.
- Escalating penalties: Up to £10k daily depending on employer size.
- Criminal sanctions: In extreme cases, against employers and individual directors.

Tax

Most US businesses entering the UK typically choose to incorporate a UK private limited company.

This section highlights the main UK tax points to consider when setting up, funding and operating that company.

Establishing a UK presence

A key point for overseas businesses is timing. If UK-based employees, founders, or agents start concluding contracts or carrying on business for the US company before the UK company is properly set up, the US company could create a UK taxable presence earlier than intended. It is usually best to align the corporate set-up, payroll registration, VAT position, and first UK hires before trading begins.

Financing structure: The UK company will usually be funded by equity, debt, or a mixture of both. The UK tax treatment of dividends, interest, royalties, management charges, and other intra-group payments should be reviewed before the structure is implemented.

Tax registration and filing: A UK company must file UK corporation tax returns. It may also need to register for PAYE, VAT, and other tax regimes depending on its activities.

Financing an existing UK business

US businesses wishing to invest in an existing UK business need to decide whether to fund the acquisition with debt or equity. This financing could be provided directly from the US, or indirectly via a UK special purpose vehicle (SPV). There are several tax considerations that may impact this choice:

Equity financing: Dividends are not tax deductible in the UK. However, an advantage of equity financing from abroad is that dividends are not subject to withholding tax in the UK.

Debt financing: UK-source yearly interest paid to non-residents is generally subject to withholding tax at 20%. However, several exemptions apply:

- Tax treaty exemption: The UK/US double tax treaty can eliminate withholding tax, though strict ‘limitation of benefits’ provisions apply. Treaty relief should be checked before interest is paid, not afterwards.
- Double tax treaty passport scheme: Pre-approved foreign lenders can usually get a direction from HMRC within 30 days to pay the interest with income tax deducted at the treaty rate instead of 20%.
- Quoted Eurobond exemption: Interest is not subject to withholding tax if the loan is listed as a loan note on a recognised stock exchange and the relevant conditions are met.
- Qualifying private placement (QPP) exemption: Broadly, this exempts interest paid on certain unlisted, transferable debt notes from UK withholding tax. Even if the exemptions above do not fully exempt UK withholding tax, a US resident may be able to claim a tax credit for this tax in their US tax return.

Interest expenses that are incurred for a trade and which are of a revenue nature are deductible for tax purposes. This is a key advantage for debt financing over equity financing, although UK tax legislation contains several exceptions:

- Transfer pricing rules: Transactions between related parties must be at arm’s length and should be supported by appropriate documentation. There is an exemption for most small and medium-sized enterprises, but it is subject to conditions.
- Corporate interest restriction rules: These rules restrict interest deductions in certain cases, but there is a de minimis of £2m per year.
- Loan relationship rules: These rules restrict interest deductions where the tax deductions are a main purpose of the borrower.
- Hybrid mismatch rules: These rules may restrict deductibility of interest where the treatment of a payment or entity varies across two jurisdictions, producing a tax advantage.

Tax

Key UK tax regimes

Corporation tax

UK private limited companies can align their accounting year with their US parent's.

Corporation tax must then be paid within nine months of a financial year-end, and a return must be filed within 12 months of year-end. Large companies may need to pay corporation tax earlier by quarterly instalments. Corporation tax applies at 25% on profits over £250k, and there is also a small profits rate of 19% for companies with profits of £50k or less and marginal relief between those limits. These thresholds can be reduced where the company has associated companies, including overseas group companies and for short accounting periods.

Most business expenses are deductible, including salaries and rent, but not entertainment costs. Accounting depreciation is not generally deductible for tax purposes; instead, relief for capital expenditure is usually given through capital allowances. This can include full expensing for qualifying new plant and machinery.

Employment taxes

The UK has one national income tax system, although Scottish income tax rates can differ for Scottish taxpayers. The PAYE system deducts income tax and employee social security contributions (called employee NICs) at source – combined rates can reach up to 10% with income tax applying separately at rates up to 45%. Employers pay additional NICs at 15% on top of salaries.

PAYE should be addressed before the first UK employee is paid. This applies whether staff are employed by the UK company, seconded from the US, hired through an employer of record, or initially paid by the US parent. Short-term visitors from the US can also create PAYE and reporting obligations, even where they remain on US payroll.

Employment tax issues are the most common among those raised in due diligence, especially in relation to the 'employment-related securities' regime, which applies to shares given to employees, founders, and personal service companies. US parent company equity awards can also create UK tax obligations. Stock options, RSUs, restricted stock, and similar awards granted to UK employees may trigger UK income tax, employee and employer NICs, PAYE withholding, and annual reporting obligations, even if the plan is operated from the US.

Value added tax (VAT)

Unlike US sales tax, VAT applies throughout the supply chain, not just to the end consumer. The standard rate is 20%, though rates vary and some supplies are exempt. Registration is mandatory once turnover reaches £90k. However, overseas businesses should be aware that different rules can apply before they are established in the UK. A non-established taxable person making taxable supplies in the UK may need to register for VAT from the first UK taxable supply, without the benefit of the £90k threshold. Businesses importing goods into the UK should also consider import VAT, customs duties, and who will act as importer of record. These points should be addressed before UK sales begin, particularly for ecommerce or distribution models.

For acquisitions, recovering VAT on professional fees is complex. To improve recovery chances, the overseas business would need to consider early incorporation of the SPV, novation of engagement letters to the SPV, a management services agreement between the SPV and the target, and VAT-grouping the SPV and target.

Research and development (R&D) relief

UK companies can claim significant tax benefits through the research and development (R&D) tax scheme, which offers a credit under the current merged R&D regime for most companies, with enhanced support available for qualifying loss-making R&D intensive SMEs. This includes costs related to software development, staff salaries, and materials used in R&D projects.

The R&D credit appears as an 'above the line' credit in company accounts, meaning it directly reduces the corporation tax liability. However, calculating the credit involves considerable complexity.

Due to these complexities and HMRC's requirement for a detailed technical report to support any claim, most companies engage specialist third-party advisors to handle their

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R&D tax calculations. HMRC scrutiny of R&D claims has increased, so companies should keep technical and cost evidence from the start of a project, rather than trying to recreate it at year-end.

R&D tax credits frequently become a negotiating point during mergers and acquisitions.

UK company share disposals by US entities

When a US holding company sells shares in a UK subsidiary, the transaction typically escapes UK capital gains tax, though US tax obligations remain. The main exception occurs when the UK company is 'property rich' - deriving substantial value from UK real estate, in which case UK tax may apply.

Buyers should note that purchasing UK company shares attracts stamp duty or stamp duty reserve tax at 0.5% of the sale price.

Asset disposals by UK companies

UK companies disposing of assets generally face corporation tax on any gains realised. However, intra-group transfers are usually exempt from taxes on disposal. Where the assets being transferred constitute a business, there may be special VAT treatment available, known as 'transfer of going concern' whereby VAT does not apply to the transaction. Transfer of going concern treatment is useful but it is not automatic. The conditions should be checked carefully, including the buyer's VAT registration position and whether the buyer will carry on the same kind of business.

Stamp duty considerations vary by asset type. Most UK asset transfers escape stamp duty entirely, but transactions involving UK real estate trigger stamp duty land tax obligations for the buyer. Real estate-heavy structures should be reviewed separately. UK land can bring additional tax issues, including SDLT, VAT, capital allowances and, in some cases, UK tax for non-UK sellers.

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We help US businesses establish and grow successful UK operations. From Silicon Valley startups to larger corporates, clients trust us to guide them through the complexities of UK market entry - incorporating a first subsidiary, hiring a European team, or executing a cross-border acquisition.

As an independent City law firm, we're trusted by the world's leading growth capital investors and their portfolio companies, including major US venture capital and private equity funds. Our agile, partner-led approach gives our clients direct access to senior expertise, as well as an extensive understanding of both sides of the investment table - from advising US investors on UK deals to supporting their portfolio companies on UK expansion.

Our international expansion team understands the challenges US businesses face, including setting up a UK entity, UK employment law, post-Brexit regulations, tax structuring, navigating IP protection, and thinking about pensions. We provide the strategic guidance US businesses need to make the UK their gateway to European and global markets. We don't just advise on compliance - we help you build, scale, and protect your UK operations for long-term success.

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